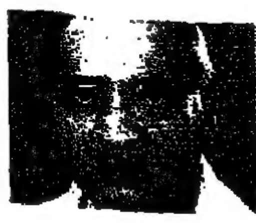
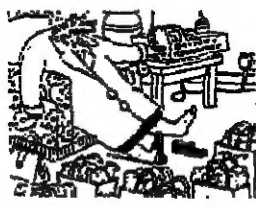


Indian polls *Relief for Rao, boost for stability* Page 14



Battery assault *Recharging sparks a war of words* Page 12

Russia's army abroad *Peacekeeping or imperialism?* Page 2

Today's surveys *International Fund Management* Pages 27-31 · *Zurich* FT Traveller, Section III

FINANCIAL TIMES

Europe's Business Newspaper | THURSDAY DECEMBER 2 1993 | D8523A

Thyssen plunges deep into red and passes dividend

German steel and engineering group Thyssen is to pass a dividend after revealing an annual net loss of DM994m ($588m) compared with a net profit of DM350m and a DM6-a-share dividend a year earlier. The steel divisions suffered massive, undisclosed losses, while the company said sales and profits were down in all non-steel divisions except the US Budd subsidiary, which makes automotive parts. Page 17

UK equities hit new highs: The London stock market basked in post-Budget euphoria, with the FT-SE 100 index surging to end 66.3 points higher at a new record close of 3,233.2 points. Page 33; Lex and Budget aftermath, Page 16

Boeing, the Seattle-based aerospace company, is to cut up to 3,000 jobs and trim production of its 737 and 747 airliners next year because of global recession in the airline industry. Page 17

Giordano accepts chair of British Gas

American Richard Giordano (left) is to become chairman of UK utility company British Gas. Giordano, 59, who holds a clutch of non-executive directorships, was Britain's highest-paid executive at one time in the 1980s when he chaired industrial gases group BOC. Although Mr Giordano's British Gas appointment will be as a non-executive, the company said the £450,000-a-year ($670,500) position would be his "main job." Page 17

Ferranti International, once a cornerstone of Britain's defence industry, said it would call in the receivers after a 1p-a-share bid from General Electric lapsed. Page 17; Lex, Page 16; GEC results, Page 24

Raw deal for UK women: Women in Britain live less long, work harder and are less likely to become MPs than almost anywhere else in western Europe, according to European statistics office Eurostat. Page 2

EU threatens to use force: The European Union will use force against local warlords in Bosnia if they ignore guarantees from the warring parties that aid deliveries will not be hindered, the Belgian presidency of the EU warned. Page 2

Ex-minister took $3m: Italian ex-budget minister Paolo Cirino Pomicino admitted illegally accepting more than $3m from the Ferruzzi group and offered to try to repay it. He was speaking at the Milan trial of financier Sergio Cusani, accused of organising the payment of $94m in bribes to Italian politicians. Page 3

Falklands oil prospect: The Falkland Islands, fought over by Britain and Argentina in 1982, may have oil reserves bigger than those of the North Sea, according to a British Geological Survey member who has studied recent seismic data from the region.

Anglo-Irish talks will go ahead tomorrow. UK prime minister John Major and his Irish counterpart Albert Reynolds will try to bridge differences about a constitutional settlement for Northern Ireland amid signs of growing strain in their relations. Page 16

De Klerk warns hardliners: South African president F.W. de Klerk urged white hardliners to stop "irresponsible" war talk and accept the will of the majority. Neo-Nazi leader Eugene Terre Blanche last week told his supporters to prepare for civil war if the African National Congress won next April's election.

Writer's killer condemned: A Cairo court sentenced a Moslem militant to death for murdering Egyptian anti-fundamentalist writer Farag Goda in June 1992.

Anti-cancer pill: British researchers at the Institute of Cancer Research reported progress towards developing a contraceptive pill that would also prevent breast cancer. For post-menopausal women, it would combine cancer prevention with hormone replacement therapy.

Japanese car sales down: New vehicle sales in Japan were 7.7 per cent lower this November than last. Page 4

FT award: The Financial Times has been named International Newspaper of the Year and International Business Newspaper of the Year in the International Press Directory awards.

■ STOCK MARKET INDICES		
FT-SE 100:	3233.2	(+66.3)
Yield	3.88	
FT-SE Eurotrack 100	1365.54	(+22.42)
FT-A All-Share	1588.91	(+2.1%)
Nikkei	17,128.31	(-713.77)
New York: lunchtime		
Dow Jones Ind Ave	3705.74	(+21.79)
S&P Composite	463.57	(+1.78)
■ US LUNCHTIME RATES		
Federal Funds:	3¼%	
3-mo Treas Bills: Yld	3.178%	
Long Bond	99¼	
Yield	6.277%	
■ LONDON MONEY		
3-mo Interbank	5½%	(same)
Liffe long gilt future:	Dec 117⅓	(Dec 116⅝)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Jan)	$14.47	(14.33)
■ Gold		
New York Comex (Dec)	$374.8	(369.8)
London	$375.45	(370.0)

■ STERLING		
New York lunchtime:		
$	1.4775	
London:		
$	1.4805	(1.4845)
DM	2.5425	(2.5475)
FFr	8.7825	(8.8075)
SFr	2.215	(2.2275)
Y	160.75	(162.0)
£ Index	81.7	(same)
■ DOLLAR		
New York lunchtime:		
DM	1.72125	
FFr	5.937	
SFr	1.5	
Y	108.8	
London:		
DM	1.7175	(1.7165)
FFr	5.8325	(same)
SFr	1.498	(1.501)
Y	108.65	(109.1)
$ Index	67.2	(67.3)
Tokyo close Y 108.80		

Austria	Sch30	Greece	Dr300	Lux	LFr65	Qatar	QR12.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft165	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lev25.00	Iceland	IKr175	Neth	Fl 3.75	South Africa	R12.00
Cyprus	C£1.00	India	Rs40	Nigeria	Naira45	Spain	Pta210
Czech Rp	CZK45	Israel	Shk5.90	Norway	NKr16.00	Sweden	SKr15
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Switz	SFr3.20
Egypt	E£4.50	Japan	Y500	Pakistan	Rs35	Syria	S£50.00
Finland	FM12	Jordan	JD1.50	Philippines	Peso45	Tunisia	Din1.250
France	FFr9.00	Kuwait	Fils600	Poland	Zl 32,000	Turkey	L6000
Germany	DM3.30	Lebanon	US$1.25	Portugal	Esc215	UAE	Dh11.00

Volvo plans for merger hit by wave of dissent

By Hugh Carnegy in Stockholm and John Ridding in Paris

Volvo's ambitious plans to merge with France's Renault were under renewed threat last night after the Swedish group's third-largest shareholder joined a growing chorus of opposition to the deal.

The call by Skandinaviska Enskilda Banken Funds, which controls 5.7 per cent of Volvo's voting capital, for the merger to be postponed brought to seven the number of Swedish institutional shareholders that have said they will not support the deal at a special shareholders meeting next Tuesday.

With only two Swedish institutions independent of Volvo pledged in favour, opponents called on Volvo not to proceed. Volvo declined official comment, but a senior executive said: "We are, of course, taking the situation very seriously".

Volvo's share price rose steeply on speculation that the merger would fail. The most-traded B share closed at SKr444 ($51), up SKr30 from Tuesday's close.

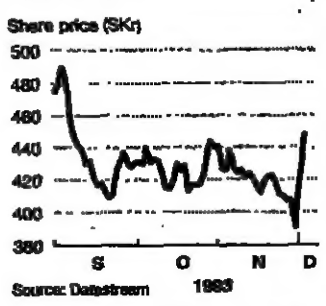
Votes committed against the merger still trail those in favour by a margin of between 10 and 6 per cent of the votes. But the Yes camp includes Renault's 10 per cent holding and the opposition now holds a clear lead among the independent institutions. Volvo admits it is reluctant to push through the deal on a narrow majority.

Renault said that while yesterday's developments were obviously unwelcome it had no new plans ahead of the shareholder vote and would await next week's decision.

A French government official adopted a similar stance, adding that the French side had done all it could to reassure Swedish investors and clarify points of concern about the deal.

Doubt was also cast yesterday over the decision of one of the supporting institutions. The

Volvo B shares



Source: Datastream

board of the Fourth Fund state pension fund, the biggest Volvo shareholder after Renault, is set to reconsider its narrow 8-6 vote in favour of the merger at a meeting tomorrow. This follows the revelation that the fund's chief executive also sits on the board of a Volvo subsidiary.

Today, attention will focus on a decision expected from the SPP insurance company which holds 4.5 per cent of the Volvo votes.

S-E Banken Funds, which has a close relationship with the Volvo board, did not reject the merger outright, but said a final decision should be postponed until next April.

The funds sharply criticised the information provided by Volvo on the merger, saying it was not sufficiently detailed to allow a proper evaluation of the values placed on Volvo assets.

Under the merger plan, Volvo would put all its core car, truck and bus making operations into the new Renault-Volvo company in exchange for a 35 per cent shareholding. "The information was not up to the standard we like to have in such an important case as this," said Mr Peter Thelin, S-E Banken Funds chief executive.

He also said time was needed to "repair the damage" caused by what had become an emotional tussle between Volvo and its shareholders.

Background, Page 18

US and EU negotiators signal willingness to be flexible

'Cautious optimism' on trade talks outcome

By Lionel Barber and David Dodwell in Brussels

European Union and US leaders yesterday signalled they were prepared to be flexible to achieve a breakthrough in their long-running talks on trade liberalisation.

Mr Warren Christopher, US secretary of state, said he was optimistic about an agreement after meeting the chief US and European negotiators in Brussels.

Mr Christopher met Sir Leon Brittan, the European trade commissioner, and Mr Mickey Kantor, the US trade representative, shortly after they had started negotiations aimed at reaching a comprehensive bilateral deal by tonight.

Mr Christopher warned that failure to complete the Uruguay Round of the General Agreement on Tariffs and Trade would not just hobble the world economy, but would damage the transatlantic relationship. The stakes "are absolutely immense", he said. He said that "we have a responsibility to meet flexibility with flexibility."

His remarks echoed sentiments expressed in Bonn after a two-day summit meeting between French and German leaders.

President François Mitterrand of France and German chancellor Helmut Kohl agreed that compromise was essential. "We must keep on making real efforts to reach a compromise that will allow the signing of an international agreement," Mr Mitterrand said.

Associated Press

Leaning towards optimism: trade negotiators Mickey Kantor (left) and Sir Leon Brittan in Brussels

The two negotiators appeared cautiously optimistic that they would be able by tonight to deliver to a special EU meeting of foreign and trade ministers a detailed package of tariff cuts and farm trade proposals that will pave the way for successful completion of the Uruguay Round.

As they raced to reach agreement, negotiators maintained silence. "We are at the stage where people are making honest assessments", one said. "Public characterisations showing how tough we are for domestic audiences are not the point."

The talks are regarded as critical if the long-stalled Uruguay Round negotiations are to be completed successfully by the deadline of December 15. If they succeed, their market access deal could embrace tariff cuts on manufactured goods such as non-ferrous metals, semiconductors, wood and paper products, ceramics and glass, and leather goods.

Even more sensitively, it could embrace late US concessions on the year-old Blair House accord limiting EU exports of subsidised farm goods, and EU commitments to raise imports of agricultural products.

Negotiators have suggested that agreements are not yet in hand for services trade, anti-dumping policies and rules regulating subsidies.

Mr Kantor was accompanied by Mr Rufus Yerxa, his deputy, who has returned to Europe to rejoin the negotiations after six months concentrating on completion of the North American Free Trade Agreement. Also present was Mr John Schmidt, the chief US trade negotiator and Mr Mike Espy, the US agriculture secretary.

Any agreement reached today will be presented by Sir Leon directly to the special meeting of EU finance and trade ministers. It will simultaneously be delivered to Gatt in Geneva, where negotiators from the other 114 participants in the Uruguay Round will meet tomorrow to consider the EU-US package.

Gatt pledge, Page 6

German insurance workers take 2%

By Christopher Parkes in Frankfurt

The first significant deal in western Germany's 1994 pay negotiations has resulted in insurance workers settling for 2 per cent across the board.

According to officials of the DAG white collar union, a one-off payment and travel subsidies will lift the total value of the 15-month deal to about 3 per cent.

The agreement, reached on Tuesday night, is the first concrete evidence to support hopes of deflationary wage rises in the new year. Western German inflation is widely forecast to average about 3.5 per cent in 1994, dipping steadily as the year progresses.

A tendency towards more moderate union demands has played an important part in encouraging the Bundesbank council, which meets today, to continue its programme of cautious interest rate reductions.

The traditionally moderate DBV bank workers' association this week requested a 4.5 per cent increase for the new year.

The real test for negotiators starts next week, when engineering and metal industry employers are due to open talks with the 3m-member IG Metall union, which has posted claims for between 5.5 per cent and 6 per cent.

Economists note, however, that the industrial sectors represented by IG Metall have shed 400,000 jobs in the past two years, and doubt that the membership has the heart to resist employers' pressure.

A month-on-month increase of 0.1 per cent in western German import prices during October and a 1.5 per cent fall compared with the same month last year, reported by the federal statistics office yesterday, also indicated

Continued on Page 16

Brussels may keep eye out for UFOs

By David Gardner in Brussels

The European Union, which at its last five summits has acknowledged its failure to bring Euro-doings "closer to the citizen", is being offered the chance to plug another communications gap – by setting up an EU observatory to watch for unidentified flying objects.

The proposal comes from the energy, research and technology committee of the European parliament, which wants to turn France's Sepra space study unit in Toulouse into a fully fledged Euro-institution.

The committee's rapporteur – responsible for producing the committee report – is the Italian nuclear physicist Mr Tullio Regge, who is understood not to believe in the "metaphysics" of UFOs. The committee, however, notes that Sepra has reported 2,300 cases of UFO sightings in the past 15 years – some hoaxes, some capable of rational explanation, but more than two-fifths of which cannot easily be explained.

A Belgian institution called Sobeps has logged 1,500 sightings based on reports to the gendarmerie, while the Italian air force reported 32 sightings last year.

Some EU officials wonder whether Europe's putative ability to communicate with extra-terrestrials would compensate for its inability to reach its own citizens.

Were the plan really to take wing, it might further complicate already tortured strands of Europe's integration process. The eventual prospect of inter-galactic integration, for instance, might severely tangle controversial Euro-issues such as subsidiarity – whether measures are most effectively taken at local, regional, national, pan-European, international, and now, interstellar level.

On enlargement, more parochial officials among the existing 12 member states are already chary about taking into the Union four new Nordic and alpine countries from the European Free Trade Association, referring to them as "Eftans".

It may be argued that it is premature to expect such member states to adjust to the idea of linking up with Martians so soon after Eftans.

But the European Parliament committee insists that Europe should stop looking inwards and raise its gaze to new potential neighbours. "The possibility that aliens have established a base in the asteroid belt cannot be ruled out," it says. It is not clear whether the proposal will be discussed by heads of government at next week's summit in Brussels.

China to overhaul taxation system

By Tony Walker in Beijing

China yesterday unveiled a drastic overhaul of its tax system aimed at simplifying collection procedures and boosting the central government's dwindling share of revenues.

Mr Zhang Zhongcheng, a top official of the national tax administration, told an international seminar in Beijing the changes would complement Chinese economic reforms which have produced dramatic growth without a corresponding increase in government revenues.

"Fiscal reform must favour the power of the central government to implement tax laws," he said. Total tax revenue has dropped sharply in the past decade from 26.7 per cent of gross national product in 1979 to 15.8 per cent in 1991.

Among the main features of China's new tax regime, which is to be phased in from January 1, are:

● A uniform 33 per cent tax rate on all enterprises to replace the 55 per cent now levied on large and medium state firms. Preferential taxes for foreign enterprises and joint ventures would not be affected initially, but even-

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CONTENTS

LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

Russian 'peacekeepers' raise imperialism fears

Doubts are growing over Moscow's 'army abroad'

As the Conference for Security and Co-operation in Europe mulls over the new Russian military doctrine which provides for the stationing of Russian troops in the "near abroad", Colonel Ivan Maleevitch, in the remote republic of Tajikistan, is laying plans.

As spokesman for the newly-created 25,000-strong Russian and Central Asian "peacekeeping" force, he is already plotting to paint his vehicles blue.

"We need to do this to show that we are proper peacekeepers," says Col Maleevitch, who is charged with explaining Russia's military presence in Tajikistan, the scene of a bloody 18-month civil war between the government and Islamic rebels.

His task will be delicate. With the Russian army now actively engaged in the Caucuses, Moldova and Tajikistan, fears that Russia could be engaged in a new military imperialism under the "peacekeeping" guise have been one of the key issues dogging the CSCE meeting.

In Georgia, Russian troops are guarding the railways in defence of the Georgian government, and in exchange have received permission to run five military bases, including three Black Sea ports. This has prompted Mr Tengiz Chachava, the "ambassador" in Moscow of Georgian rebel leader Mr Zviad Gamsakhurdia, to claim that "it should be clear to all countries now that what is at stake in Georgia is the resumption of Russian rule".

In Azerbaijan 200 Russian military advisers are covertly supporting the Azerbaijani government in exchange for a share in Azerbaijan oil fields for Russia's state oil group Lukoil, according to Azeri officials.

But it is the 700-mile Tajik-Afghan border which could prove critical in defining Russia's policies in the "near abroad", not least because the area is already an embryo for any future CIS-wide peacekeeping force.

To try to allay western fears, Mr Andrei Kozyrev, Russian foreign minister, recently suggested that the operations be given a United Nations or CSCE mandate, insisting that "Russia's withdrawal from its peacekeeping role would threaten the former Soviet Union with a Yugoslav scenario".

The proposal has already provoked outrage from some Baltic and central European countries as well as some UN officials, who point out that the UN stipulates that "peacekeepers" cannot be taken from adjacent countries.

Nevertheless the proposals have received a more tolerant hearing in Britain, France and Germany, where there is a grudging acceptance that Russia has legitimate security concerns on its borders – and that a Russian-held peace might be better than no peace since the UN is in no position to provide peacekeepers.

By Gillian Tett and Steve LeVine

However, as western diplomats admit, the problem is that Russia's longer-term policy in these areas remains unclear, with the Russian army and Russian foreign ministry apt to speak with different tongues.

Mr Kozyrev, for his part, insists that Russian troops are needed in Tajikistan, for example to protect the 200,000 Russians in Tajikistan and prevent the rebels based in Afghanistan from spreading "Islamic extremism" into its southern flank.

In Dushanbe General Boris Pyankov, acting commander of the peacekeeping force, denies that Russia has any "imperialistic" aim, pointing out that all the Russian forces, including the locally based 201 division, are now under a joint command structure.

This structure, drawn up between Russia, Tajikistan, Kazakhstan, Kyrghyzstan and Uzbekistan in August, envisages a six-month peace-keeping term, renewable at the Tajik government's request.

But this multilateral control is largely a diplomatic figleaf – most of the heavy weapons remain in the hands of the Russians. With the Russian troops now in effect propping up the Tajik government, Mr Abdumalik Abduladjanov, the Tajik prime minister, admits that the troops are likely to be in the country "for a long time".

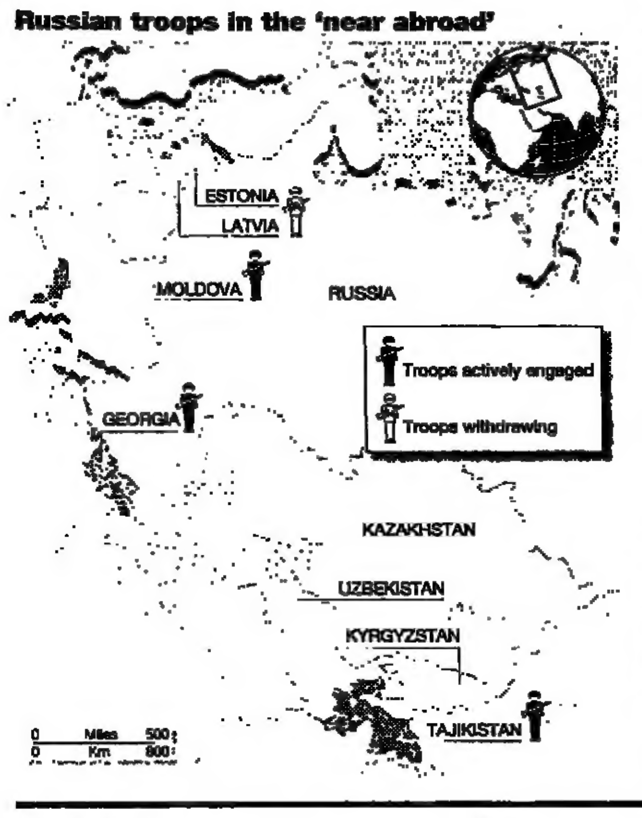
So far western observers in Dushanbe have retained a discreet silence on the issue. "I don't think the United Nations will come out openly with official support. But I think they will give a tacit nod," explains one diplomat.

Even if the west accepts Russia's role on the border, it is likely to insist on strong international scrutiny, which may involve a demand that the troops maintain a dialogue with both sides. There has been little evidence of this recently in Tajikistan or Georgia, and in Moldova the Russian forces have openly sided with the local Russians.

With the mission in Tajikistan likely to be unwinnable, questions also remain about Russia's patience. After 25 Russians were massacred by the opposition on the border in summer, Russian leaders know public opinion in Russia could become less tolerant. . On the ground Russia's presence has already made the opposition virulently anti-Russian.

"Russia will pay for this in the future – we blame the Russian government for this," says Davlat Usmon, opposition leader from his stronghold in the Pamirs. And in Afghanistan itself, opposition forces are already reported to be offering $350,000 for the head of a Russian commander.

Russian troops in the 'near abroad'



Russian troops inspect abandoned weapons at an Islamic rebel base in Tajikistan recently

CSCE defers peace mandate

By Anthony Robinson in Rome

Foreign ministers of the 52-nation Conference on Security and Co-operation in Europe yesterday postponed a decision on Russia's bid for a CSCE mandate for its "peacekeeping" operations in the former Soviet Union.

However, they did ask the CSCE secretariat in Vienna to draw up a set of rules as a basis for the sanctioning of military intervention by Russian forces. These are likely to emphasise the timely dispatch of armed monitors to potential trouble spots and the setting up of parallel political dispute-settling processes.

Former Soviet states have been arguing that approval for Russian military peacekeeping in former Soviet territories would constitute a new "Yalta agreement", creating two security zones in Europe. But western diplomats argue that the west is unlikely to provide troops to address the security risks in Transcaucasia and central Asia.

With elections in Russia looming, ministers also wanted to avoid any hint of rejecting the Russian proposals. But Mr Anatoli Zlenko, the Ukrainian foreign minister refused to be restrained by electoral considerations when he strongly rebutted the attack on Ukraine's nuclear policies made on Tuesday by Mr Andrei Kozyrev, the Russian foreign minister.

Dismissing Russia's claim that Ukraine's slow and partial ratification of the US-Soviet Start 1 agreement was re-creating a nuclear risk in Europe, Mr Zlenko said "everyone knows that the nuclear button remains in Russian hands and that Ukraine has no intention of obtaining operational control".

Quentin Peel adds from Bonn: France and Germany yesterday called for the Western European Union, as the arm of common defence policy in the European Union, to become a vehicle for bringing the countries of eastern Europe closer to western defence structures – but stopping short of full Nato membership.

Moscow looks set for Baltic withdrawal

By Matthew Kaminski in Riga

Russia appears ready to rethink its regional military presence in the Baltics after it recently proposed to withdraw from all but one of its strategic bases in the Baltic states.

In recent bilateral talks with Latvia and Estonia, which resume tomorrow, Russia offered to return the nuclear submarine training base at Paldiski, Estonia, as well as the Ventspils satellite listening post and Liepaja naval base by next August, or soon after.

Although no agreement has been signed, western diplomats note a change of tone in the long-running negotiations, and place special weight on the explicit offer to leave Liepaja.

A military expert said this means Russia must now reduce its Baltic Sea naval fleet since the some 50 vessels at Liepaja cannot be restationed in Baltiisk, the Kaliningrad port, or Kronstadt, near St Petersburg, which are both full.

However, Russia wants to keep the early warning radar station in Skrunda in Latvia under military control for six more years, until a similar facility is built in Baranovich, in Belarus.

Mr Valdis Birkavs, Latvian prime minister, said Latvia could accept civilian control for 18 months, but only with "international guarantees".

Roughly 16,500 soldiers are left in Latvia and Estonia. Russia's defence ministry is said to want some troops from the Baltic rim moved to "hot spots" in the trans-Caucus and central Asian states.

Until then, however, neighbouring states are worried about the troop build-up in Kaliningrad, where more than 100,000 soldiers plus equipment are concentrated.

EU warns it may use force to free blocked aid in Bosnia

By Laura Silber in Geneva and Lionel Barber in Brussels

The Belgian presidency of the European Union served notice that Europe was ready to use force against local warlords blocking the flow of humanitarian aid in Bosnia.

The warning followed talks in Brussels between Mr Jacques Delors, European Commission president, and Mr Warren Christopher, US secretary of state, which helped lay the groundwork for next month's visit by President Bill Clinton to Europe and a Nato summit.

The talks were a clear effort to patch over the political rift which surfaced in the transatlantic relationship earlier this year, principally over US support for arming the Bosnian Moslems against the Serbs.

Mr Christopher said the US opposed using the threat of a suspension of humanitarian aid as a lever on the Bosnian government to offer concessions in the Geneva peace talks.

Meanwhile, Bosnian government officials yesterday signalled for the first time that they might accept the partition of the Bosnian capital of Sarajevo.

Mr Muhamed Sacirbey, Bosnia's ambassador to the UN said: "If the division is what we need to save lives....The Serbs are insisting on it, while we are wondering how to survive the winter."

A member of the Serb delegation yesterday said he believed the two sides were on the verge of making a deal. He said Serbs had offered to make territorial concessions outside of Sarajevo, if they were given 40 per cent of the capital.

Moslem leaders reportedly rejected the Serbian proposal to exchange two industrial suburbs, Vogosca and Ilijas, in exchange for the Moslem enclaves of Srebrenica and Zepa, eastern Bosnia. Mr Alija Izetbegovic, the Bosnian president, had earlier put forward a map outlining a mostly Moslem republic.

Speaking on condition of anonymity, a member of the Bosnian Serb delegation yesterday dismissed the map as "maximalist".

In addition to Moslem demands for eastern Bosnia, a key sticking point remains their plan to gain a land connection to the Adriatic and a 10km stretch of the coast.

Croat leaders this week reiterated their refusal to hand over any portion of the coast.

In exchange for the gradual lifting of sanctions on Belgrade, the European Union "action plan" says Serb leaders must hand over 3-4 per cent more land to their Moslem adversaries, in addition to the 20 per cent of land envisaged in the plan brokered by the international mediators.

British women 'given raw deal'

By David Marsh
European Editor

Women in Britain live less long, work harder, and are less likely to become MPs or ministers than almost anywhere else in western Europe, according to the European statistics office Eurostat.

They have to cope with lower levels of maternity benefit than in most other members of the European Union, as well as a larger gap compared with male wages: British women are also far more likely to be left at home to bring up the children.

Female unemployment is higher than male in every EU country apart from Britain. The female rate is more than twice the male level in Greece, Belgium, Italy and Portugal. British women's relatively low unemployment is partly explained by greater opportunities for part-time work.

In nearly every other category, British women are at or close to the bottom of the Euroleague. Ms Jill Chesworth, spokeswoman for the Equal Opportunities Commission, an independent body set up to counter sex discrimination, said the findings confirmed British men and women alike were getting "a raw deal" as a result of UK economic decline.

Women in the European Community - Eurostat, Bâtiment Jean Monnet, L-2920 Luxembourg. Fax 352-438404

Let Moscow join European Union, says Séguin

By David Buchan in Paris

Mr Philippe Séguin, president of the French national assembly, last night called for radical changes in the European Union to widen its membership to Russia, to create a European Security Council, and to relaunch the European economy with interest rate cuts and massive public borrowing.

The impact of the views of Mr Séguin, who led last year's French referendum campaign against Maastricht, and the degree to which they might rock the foundations of the Balladur government's European policy, may depend in part on the outcome of the Gatt negotiations.

If a Gatt crisis were seriously to divide the French government, and particularly Mr Edouard Balladur from his party leader, Mr Jacques Chirac, then the latter might lend a sympathetic ear to some of Mr Séguin's views, at least those on economic and monetary policy.

Mr Séguin, who has led the criticism of government policy, particularly its failure to stem unemployment, within the prime minister's own RPR Gaullist party, has been competing with Mr Balladur for Mr Chirac's ear.

The National Assembly president shares much of the Euroscepticism prevalent in London.

But, in his speech last night to a Paris university audience, he pushed the thesis of a wider-rather-than-deeper European integration further than any British conservative minister would dare or probably want to.

He called for the EU to consolidate the peace of Europe by extending its membership to Russia, Ukraine and Belarus. Capping his vision of a "Grand Europe" would be a European Security Council, modelled on the United Nations version with four or five main European powers on it and able to dispatch peace-keeping forces throughout the continent.

He proposed a radical downgrading in most EU institutions, with the Brussels Commission losing its right to make proposals and with the European Parliament confined to ratifying European legislation "which would be collectively elaborated by national parliaments".

To stop Europe's "collective suicide" in the form of ever-rising unemployment, Mr Séguin called for a "rapid and substantial lowering of interest rates", and for recognition that the plan for a single European currency, is "strangling the whole of Europe".

Georgia rebels in PoW swap

The Georgian government and representatives of the secessionist region of Abkhazia yesterday agreed to exchange prisoners of war and allow refugees to return, writes Frances Williams in Geneva.

A memorandum of understanding reached after two days of United Nations-mediated talks also invited the UN to send an international peacekeeping force to Abkhazia to police the uneasy ceasefire.

Abkhaz rebels seized control of the region last summer after a civil war in which thousands died.

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Russia in plea for foreign capital

By John Lloyd in Moscow

A senior minister yesterday pleaded with western investors to increase their stake in Russia, promising a much friendlier regime after parliamentary elections this month.

Mr Oleg Soskovets, a first deputy prime minister, told a meeting of US business people that Russian industry needed many billions of dollars of foreign capital to modernise itself. The aluminium industry, he said, needed $6.6bn, oil and gas refineries in the far eastern province of Sakhalin alone needed $10bn, while the list of demands for oil and gas industry equipment stood at $17.5bn.

He said the government would call on the parliament, elected after December 12, to pass legislation creating free economic zones and concessionary agreements, as well as to rescind "ill-grounded barriers to the activities of foreign companies in Russia".

He said the percentage of wholly foreign-owned companies in the overall number of joint ventures had grown from 19 per cent in 1992 to 40 per cent in 1993 – though the amount of private foreign capital invested remained low, at around $2bn. Against a background of falling production, foreign-owned enterprises had increased their output of light industrial products and had helped restore oil production.

He said foreign investors should be directed to the priorities of oil production, agriculture, high technology and military conversion.

Meanwhile, economics ministers, meeting Mr Viktor Chernomyrdin, the Russian premier, approved a "tough" budget – with further spending on the energy sector of Rbs1,500bn ($870m), to be compensated for by raising unspecified revenues of an equivalent amount.

The ministers heard that gross domestic product fell 12 per cent in 1993, compared with 20 per cent last year; that inflation had slowed to 15 per cent in November from 21 per cent in October; and that the budget deficit for the year would be 10 per cent of GDP.

Madrid confronts unions head on

By Tom Burns in Madrid

FT The Spanish government is determined to confront the unions and deregulate the labour market despite the threat of a general strike next month and foreign investor nervousness about growing industrial unrest, a senior minister said yesterday.

Mr Pedro Solbes, economy and finance minister, insisted at a conference in Madrid organised by the Financial Times and Expansion newspaper that the strike would have "no impact on what the government intends to do" and that it would "in no way affect the exchange rate".

Unions have called for a 24-hour walkout in the second half of January to force the government to withdraw legislation aimed at loosening fixed employment guidelines and making it easier to sack staff. The government, which argues that Spain's labour market rigidities are directly responsible its unemployment levels – the highest in the European Union – is to approve the deregulation measures tomorrow

Mr Solbes said the cabinet would approve a decree law, with immediate effect that would end the government's monopoly on job placements for the unemployed and remove legal impediments to apprenticeship schemes and part-time employment.

The government hopes as many as 900,000 18-25-year-olds will be able to enter the job market under these measures. The jobless figure stands at 3.5m or 23 per cent of the labour force, according to the national statistics office.

The peseta, which has been under heavy selling pressure, remains the weakest currency in the European monetary system's exchange rate mechanism although it held steady yesterday at Pta82.18 to the D-Mark. It gained slightly against the dollar closing at Pta140.95.

The government-union showdown in Spain comes at the end of a fruitless three-month attempt to negotiate a "social pact" with unions and employers on wage restraint and labour market reform. The talks were called off officially on Tuesday.

The measures are opposed by the unions who accuse the government of creating "junk jobs". Organised labour is even more hostile to a draft law, also to be unveiled tomorrow, which will alter statutory labour rules on a maximum eight-hour working day and a daily 12-hour minimum rest period, change collective bargaining procedures, streamline job classifications and ease relocations.

EU report says airlines must cut costs

'Wise men' favour open skies policy

By David Gardner in Brussels

The European airline industry must end the debate over its future and get down to practical cost-savings measures if it is to have any assured future, according to the committee of "wise men" set up by the European Commission to look at the financial crisis in civil aviation.

The committee, headed by former Belgian transport minister Herman De Croo, presented an interim report to EU transport ministers in Brussels on Tuesday, and is due to finalise its recommendations by mid-January.

The meeting widened the rift between a French-led coalition looking to spare their flag carriers the sharper measures of the EU air transport deregulation put in place over the past seven years, and a more or less equal UK-led group of member states seeking to preserve and extend the "open skies" regime and ban state aids to national airlines.

But Mr De Croo told the ministers that "the European airline industry cannot afford continuing such a largely ideological debate with only sterile results. What we need are practical measures that work and bring about incentives for cost savings."

"The European airline industry can no longer afford selling a product, produced at European cost levels, at world market prices," the report says, rejecting any solution which rolls back liberalisation.

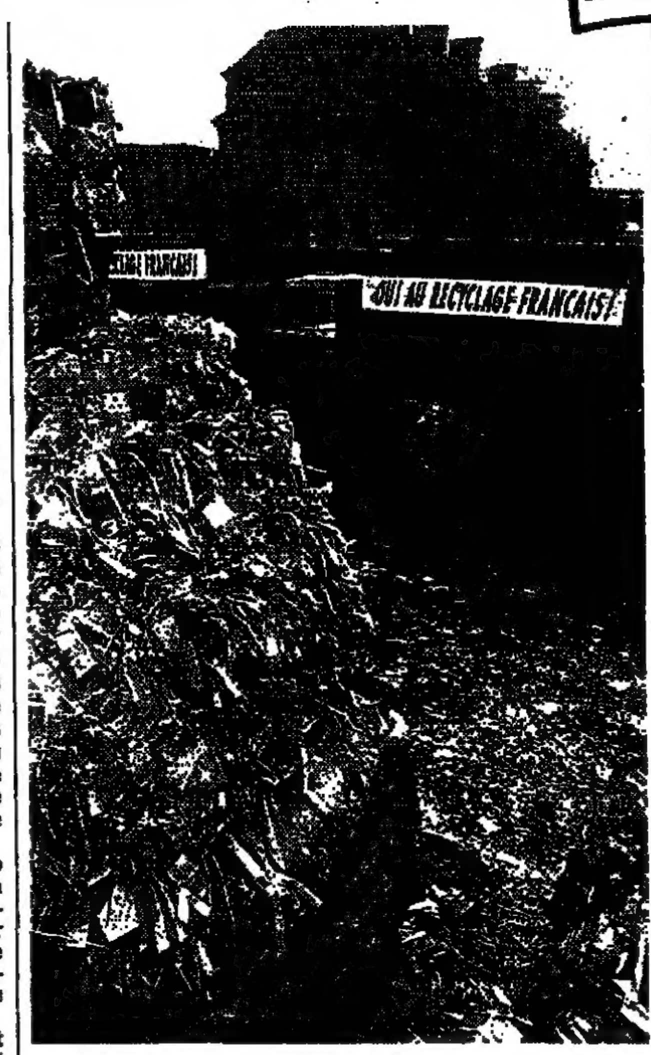
The committee's preliminary findings state that:

- Europe's airlines have long combined above average growth with below average profitability, a phenomenon it describes as "possibly unique".
- On average, the industry has a considerable cost disadvantage compared to its main international competitors, with flag carriers' operating costs at 45 per cent above their US rivals. "A significant part of this gap stems from lower productivity," the report says, pointing out that salary levels do not substantially differ between Europe and the US.
- Airlines in Europe pay higher airport and air traffic control costs, while chronic congestion adds to overall costs.
- They also pay higher financial costs, because of exchange rate risks, less favourable conditions for tax-lease arrangements, and "the higher efficiency of US capital markets".

However, the report notes that financial difficulties have not hit all sectors of the industry equally. Charter and cargo services have done remarkably well during the recession. Independent carriers increased jobs in 1990-92 by 10 per cent, while employment at flag carriers fell 4 per cent, with more redundancies in prospect. The latter are losing market share in and outside the EU, the report notes.

The options, Mr De Croo said, are "major cost-cutting on all fronts or declare bankruptcy", or to let the taxpayer pick up the bill through state aids. "If we do nothing a combination of all three options will occur."

The interim report does not rule out public funding to aid industry restructuring, but its tone clearly strengthens the liberal camp in EU aviation.



Reuter

The French recycled paper industry dumped truckloads of waste paper in Paris yesterday in protest at imports, on the eve of recycling talks by European Union environment ministers

Turkish tax net tightened

By John Murray Brown in Istanbul

A programme of tax changes designed to close Turkey's budget gap and offset expected losses from the move to a customs union with the European Union in 1995 were unveiled yesterday by Mrs Tansu Çiller, the prime minister.

The changes, which parliament will have to rush through in the next few weeks to take effect in the 1994 tax year, include a new consumption tax, increases in effective corporation tax, increased tax allowances for the lower paid, and administrative reforms to reduce tax evasion.

"For some people not to pay tax while those on the minimum wage pay their tax automatically every month is a shame, a sin and an injustice," Mrs Çiller said, warning that the names of tax evaders would be exposed. The reforms aim to raise the tax take by 2 per cent of gross national product next year and 3 per cent in 1995.

The parliamentary budget commission is expected to conclude the 1994 budget discussions this week, before taking the draft to the full house for approval.

The budget, which has been calculated assuming parliamentary backing for the new tax reforms, envisages a deficit of TL192,000bn (£9.3bn), on spending of TL819,000bn.

The reforms reduce the number of exemptions which allow corporations to reduce their tax liabilities. Under the new system, companies will pay corporation tax at a minimum rate of 20 per cent. Tax incentives are to be introduced for companies going public.

The new consumption tax is specifically aimed at offsetting lost revenues resulting from the move to lower import tariffs and the scrapping of the mass housing fund as Turkey implements a customs union with the EU in 1995.

The announcement, which Mrs Çiller made during a nationwide television address, coincides with publication of figures showing gross national product growing by 7.9 per cent in the third quarter. Growth was strongest in the services sector.

After 12 per cent GNP growth in the second quarter, economists are projecting growth for the whole of 1993 at around 8 per cent, which should result in higher than budgeted tax receipts for the government in the current year.

Pomicino admits funding

By Robert Graham in Rome

Mr Paolo Cirino Pomicino, a former Christian Democrat budget minister and one of the party bosses in Naples, yesterday admitted in a Milan court to receiving L5bn (£2m) in illicit funds from the Ferruzzi-Montedison group.

Mr Pomicino, until recently protected by parliamentary immunity, is the first senior minister to have admitted receiving illicit funds. The admission was part of evidence in the trial of Mr Sergio Cusani, a financial consultant close to the Socialist party who is charged with helping the Ferruzzi-Montedison group distribute money to obtain political favours.

According to Mr Pomicino, the funds were handed over in the form of treasury bills. These were then cashed by Mr Franco Ambrosio, the Neapolitan businessman who controls Italgrani, the grain group.

Mr Pomicino said the funds were used for campaigning; but more than L1bn was passed on to Mr Salvo Lima, the powerful Christian Democrat politician who represented Mr Giulio Andreotti, the former premier, in Sicily. Mr Lima was murdered last year in a Mafia assassination and has since been identified as having Mafia links.

Anti-EU sentiment grows in Finland

By Christopher Brown-Humes in Stockholm

For the first time more Finns oppose membership of the European Union than support it, according to a Gallup poll published by the Helsingin Sanomat newspaper. Finland applied for membership in March, 1992.

In Norway a Gallup poll this week put EU support at 21.8 per cent, with 51.6 per cent opposing. The latest Sifo poll in Sweden puts the No vote at 48 per cent, compared with 30 per cent in favour.

According to the new poll in Finland, 41 per cent of Finns would vote No to EU membership if a referendum were held now. This compares with 36 per cent in favour and 23 per cent who are undecided.

There is no doubt that the latest vote has been influenced by widespread disappointment over the EU's response to Finland's demands on agriculture, the key issue in the country's membership discussions.

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Mitterrand and Kohl in Gatt pledge

By Quentin Peel in Bonn

France and Germany yesterday pledged themselves to make "real efforts" to promote a compromise agreement in the Gatt trade negotiations in the coming days, insisting that both the European Union and the US had to make concessions.

President François Mitterrand of France and Germany's Chancellor Helmut Kohl both agreed that compromise was essential, and that no country – meaning France – should be isolated in the negotiations.

Speaking after the latest Franco-German summit meeting in Bonn, Mr Kohl warned that a deal was necessary, not only to guarantee the future of free world trade, but also for the future cohesion of the European Union.

At the same time Mr Edouard Balladur, the French prime minister, repeated his insistence that an initial deal must be done by next Monday, to give him time to present it to the French national assembly. He also warned that any agreement must be unanimously accepted by the 12 members of the European Union: "There is no question of any member state being isolated," he said. "If anything is isolated, it would be the European Union itself."

The words of both Mr Mitterrand and Mr Balladur suggested a willingness on the part of France to make concessions, provided that the US government also gave some ground on the key questions of farm trade, films and television.

"We must keep on making real efforts to reach a compromise that will allow the signing of an international agreement," Mr Mitterrand said at a press conference after the summit. "We are ready to make these efforts, but we are not alone. This must include the US."

Mr Balladur said the Gatt negotiations amounted to the first great test for the European Union, after the Maastricht treaty came into effect. The union had to show it was capable of acting as a single international entity.

The French premier, whose own political reputation is most at stake if the Gatt deal is rejected in France, said he need "eight to 10 days" after agreement on an initial text between European and US negotiators, to present the document both to the French president and the parliament. That would mean a deal by next Monday, to allow French approval by the US Congress deadline of December 15.

Mr Kohl was anxious not to make any statement which could be seen as interference in the heated French domestic political debate, but merely to stress the importance Germany still attaches to a deal.

"It is our common goal to ensure that Gatt reaches a positive conclusion," he said. "For this it is necessary that both sides, on this side and on the other side of the Atlantic, show they are capable of compromise.

"We must use the next hours and days to reach a satisfactory conclusion. We know how important this decision is not only for free world trade, but also for the cohesion of Europe, and for relations between our countries."

That was the nearest he came to any suggestion of moral pressure on the French to accept an unpalatable deal.

Balladur: insistent

A Round sceptic seeking a square deal

Nancy Dunne on a US official negotiating a Gatt package which once he did not believe in

Mr Jeffrey Garten, the new US Commerce Department under-secretary for international trade, will make his debut as a trade negotiator in the Uruguay Round talks in Geneva tomorrow in what he deems "the most inclusive international negotiation ever attempted".

An avowed believer in "an open market-oriented trading system", his brief will be to defend the US anti-dumping and countervailing duty laws, considered by many US trading partners as little more than covert protectionism. He will also oversee the interests of two of the most protected US industries – textiles and steel.

One of the Clinton administration's "innovative pragmatists", Mr Garten was taken on to help move the US Commerce Department from the bureaucratic backwaters to the cutting edge of trade and economic policy. No one who knows him doubts that this genial former merchant banker has the mental agility for the job.

Mr Garten argues that the US trade laws are essential to assure American companies that "there is a degree of fairness in the international trading system, especially since the US market is more open than others". The Round cannot win congressional approval if the trade laws are in any way "diluted" and, besides, the amount of trade effected is "an insignificant portion of imports" – less than 5 per cent.

Mr Garten cut his negotiating teeth on Latin American debt restructuring in the early 1980s. He has also arranged dozens of deals between Asian and American companies as director of Shearson Lehman Brothers' Japan office.

Mr Garten has also written about foreign and economic policy in leading US newspapers and foreign affairs magazines and in a book on past and future relations between the US, Japan and Germany.

At times his views have got him into trouble. It was while he was at Shearson Lehman and the Uruguay Round was being launched that he expressed doubts about the Round in the Wall Street Journal. This proved to be a public embarrassment to one of the Round's greatest backers, Mr Jim Robinson, then chairman of American Express, which owned Shearson Lehman.

Against all the optimism of the times (the Round was to be completed in 1990 after four years of talks), Mr Garten argued that the negotiations would be too complex, involved upheaval in too many domestic policies and had little to do with US trade problems at the time.

"The big trade issues had to do with currencies," he says. "The dollar was just coming down. There was talk about de-industrialising the US. The Round would not deal with the issues that were killing us."

All that has now changed, he he says, since the Clinton administration has set the course for budget deficit reduction, worker retraining, technology policy and efforts to stimulate investment. Now the Round provides a link between trade and domestic economic and social policies, he says.

Furthermore, a successful Round will bring into the trading system in a more integral way the developing countries, which hold the greatest growth potential for US companies. "That means the emerging markets have enhanced obligations. They also have to have a fair shot at access to the industrialised country markets."

As for Europe, Mr Garten sees it as a diminishing opportunity for US companies. Writing in Foreign Policy magazine last summer he foresaw the loss of American leverage in negotiations with Europe "as a result of Europe's reduced need for American military protection" and as intra-European trade rises faster than transatlantic commerce.

"There is no chance that Europe will cede its national markets willingly," he adds. "A strong defensive response, characterised by slower-than-usual approach to trade liberalisation and selective but heavy government intervention is more likely."

For all its desirability, with all the momentum going for a deal, Mr Garten does not under-estimate the difficulties. "The number of trade-offs among different categories is potentially mind-boggling," he says. "You have so many countries involved . . . at different stages of development. You are negotiating apples and oranges and pears."

In the end, he insists, the Clinton administration will not take a deal that falls short of its goals. "It would be a mistake to think the administration will sign an agreement simply because it's the Uruguay Round and this has been a central part of economic strategy and we see trade liberalisation as a major part of job creation.

"There are some very major obstacles to cross; it will take a Herculean effort to do it."

US-Russian trade in manufactured products is soaring this year, while American trade agencies are being flooded with requests for export finance and insurance, according to Mr Jeffrey Garten, the US Commerce Department under-secretary of international trade.

As co-chairman of the Business Development Council, a US-Russian Commission, Mr Garten was in Moscow yesterday helping to dismantle obstacles to US trade and investment.

In the first eight months of this year, US exports to Russia rose by 165 per cent to $1bn.

While Russia's exports to the rest of the world declined, its American exports leaped by 287 per cent to $729m. US enthusiasm for business ties to Russia, strong when the cold war was winding down, began to cool when the difficulties of doing business became apparent. However, encouraged by US government programmes, more than 400 American companies have set up shop in Russia, Mr Garten said.

Applications for trade insurance to the Overseas Private Investment Corporation are "off the charts", Mr Garden said.

The same is true for financing from the US-Export Import Bank and the Trade and Development agency, which finances feasibility studies.

Associated Press

Six legislators from Japan's opposition Liberal Democratic party continue a sit-in protest outside parliament against rice imports

Farmers fear being forced to leave the land

By Frances Williams in Geneva

European farmers' organisations warned yesterday that, unless important changes were made to the proposed Uruguay Round farm deal, a third of Europe's 10m-11m farmers would be forced to leave the land.

The Committee of Agricultural Organisations (Copa) and the General Committee for Agricultural Co-operation (Cogeca), grouping farmers' organisations in all 12 EU member states, said in Geneva that the current draft agreement on farm trade reform would more than double the amount of productive land left fallow, halve farm incomes and cripple the rural economy.

Their complaints were echoed in more strident form by French farmers' groups and the European Farmers Co-ordination, representing small farmers across Europe, who plan a big demonstration in Geneva on Saturday against the proposed reforms.

However, Mr Hans Kjeldsen, president of the International Federation of Agricultural Producers which brings together farming organisations from over 50 countries, said yesterday that a failure of the Uruguay Round this time would be "a disaster for farming worldwide" because of the risk of increased protectionism and trade war.

At the same time, farmers needed reassurance that a Gatt accord would sustain "a more dynamic and sustainable role" for agriculture. "If we want to maintain rural life, we need viable farmers," he added.

Both Mr Kjeldsen and the representatives of Copa and Cogeca were in Geneva to see Mr Peter Sutherland, Gatt director-general, amid speculation that the meeting in Brussels yesterday and today between Sir Leon Brittan, EU trade commissioner, and Mr Mickey Kantor, his US counterpart, could produce a revised farm accord.

Mr Augusto Bocchini, Copa president, said yesterday that the present draft Uruguay Round farm deal would go well beyond reform of the EU's Common Agricultural Policy and unilaterally penalise European agriculture. It would cut European exports of farm products by about a third, on average, and lead to a considerable increase in imports, while excluding the EU from participating in any expansion of world farm trade. Total compensation payments now envisaged under CAP reform would have to double to maintain present income levels for those farmers still managing to survive, he said.

Echoing demands made by France for changes in last year's US-EU Blair House accord on farm subsidies, Copa and Cogeca are urging a reordering of the timetable for cuts in the volume of subsidised exports, so that the impact is felt more evenly over the six-year transition period.

The two organisations also want an indefinite "peace clause" that would prevent the US and others from challenging EU farm policies during the reform process, effective safeguards against price and currency fluctuations and restraints on imports of cereal substitutes.

Japan seeks protection from discriminatory deals

By David Buchan in Paris

Japan yesterday sought multilateral protection from pressures, mainly by the US, to strike bilateral deals on trade and investment discriminating against Tokyo's interests.

A senior Japanese official yesterday asked the Organisation for Economic Co-operation and Development (OECD) to issue a declaration "prohibiting bilateral negotiations by any OECD country" leading to one-sided trade and investment measures.

Mr Noburu Hatakeyama, special adviser to the Ministry of International Trade and Industry (Miti), complained to an OECD conference on "the globalisation of industry" of recent US pressure to get Japanese electronics companies to buy up to 20 per cent of their semi-conductors from foreign sources, and for Japanese-owned car companies in the US to favour parts from US-owned manufacturers over other sources.

Mr Hatakeyama, a former vice-minister of Miti, said he hoped that a ministerial OECD meeting next year would take a general stance against such discriminatory pressures. He claimed quite wide support from other delegations for his proposal, but acknowledged some like the US regarded it as "idealistic".

OECD declarations have no binding force on member countries. "But if we keep stressing the importance of prohibiting bilateral negotiations which result in very discriminatory decisions, ultimately this kind of political declaration will get support, and bit by bit many OECD countries, including the US, will abide by it", Mr Hatakeyama said in an interview after the meeting.

The Miti adviser also praised Mexico's new legislation, passed in the wake of US approval of the North American Trade Association (Nafta), to give other countries the same freedom to invest in Mexico as the US and Canada will now have through Nafta. But the latter two countries were still practising trade discrimination against Japanese "transplants" in the US, he said.

As part of a new round of US-Japanese talks, begun in July while Mr Hatakeyama was still vice minister of Miti, "the US has recently asked us to issue guidelines to our industry established in the US to purchase parts from 'traditional' – by which they mean American – suppliers, rather than Japanese auto component manufacturers established in the US," he said. Washington, he complained, was even asking Tokyo to favour the import into Japan of car parts from US companies over those which could be supplied by Japanese-owned companies in the US.

If successful, the Uruguay Round will help remove certain "trade-related investment measures" such as those which require investors to promise to export a certain share of their production, and remove discrimination in the service sector. "But this Gatt round will not deal with discrimination in industrial or agricultural investment", he said. "That is a big hole, which perhaps the OECD can help fill".

SA Express orders 12 aircraft from Canadian group

By Bernard Simon in Toronto

SA Express, the fledgling South African regional airline, has ordered 12 de Havilland Dash-8 aircraft from Bombardier, the Canadian transport group.

The order, worth US$150m, (£100.6m) marks both a commercial and political breakthrough for Bombardier in the wake of Ottawa's recent lifting of sanctions against Pretoria.

SA Express is a new airline 51 per cent owned by black South African interests, led by Thebe Investment Corporation, and 49 per cent by Lardel Holdings of Ontario. A group of Canadians, with experience in regional airline operations, will initially form the senior management.

SA Express has an option on an additional six turboprop Dash 8s. De Havilland, which is jointly owned by Bombardier and the government of Ontario, has sold a total of 392 Dash 8s, of which 359 have been delivered.

● The Sydney Steel plant in north-eastern Nova Scotia has won a new lease on life with the help of China and its over-burdened rail system, Robert Gibbens writes from Montreal.

After months of negotiations, MinMetals, a Chinese government trading agency, will help keep the basic steel and rail-making plant alive for a minimum of three years in partnership with the provincial government. Most of the heat-hardened alloy steel rail being produced will go to China.

Sydney Steel, known as Sysco, was taken over by the province in 1967 after Hawker Siddeley Canada threatened to shut it down because of heavy losses. The provincial and federal governments have since spent more than $1bn to modernise it and cover operating losses.

In 1990 it was converted into a high-technology rail making operation for nearly C$300m, (£152.2m) and providing jobs for 700.

Sysco lost C$279m after a special charge in the year ended March 31, 1993, but expected a small operating profit this year. Basic steel output will be 233,000 tonnes.

MinMetals and the province will each provide C$15m in operating funds for the next three years.

The province will assume Sysco's debt and pension obligations. If Sysco remains profitable, MinMetals will buy it outright for C$30m cash at the end of three years and undertake to keep it open, the government said.

The deal is due to be signed by the end of next month.

Gallup in Chinese joint venture

By Patrick Harverson in New York

The Gallup Organisation, the world's largest survey research group, announced yesterday that it had become the first western company to receive a licence to operate a market research company in China.

Until now, commercial market research in China has been conducted from abroad by contracted research or small consultancy companies.

The new operation, Gallup China, is a joint venture between Gallup, which is based in New Jersey, and Carrie Enterprises, a state-owned but US-managed import-export company. With headquarters in Beijing, and planned branch offices or satellites in Shanghai, Guangzhou and 16 other cities, Gallup China will conduct market research surveys on behalf of US, European and Asian clients, including Chinese companies.

The company however, will not conduct any political research, although Mr Richard Buckholder, director of worldwide operations, said it would be a "natural development" to move into political polling.

Gallup China has already won three contacts to conduct surveys in China worth $100,000.

Gallup expects to invest $10m-$20m in its Chinese operation, which is initially licensed to operate for 20 years.

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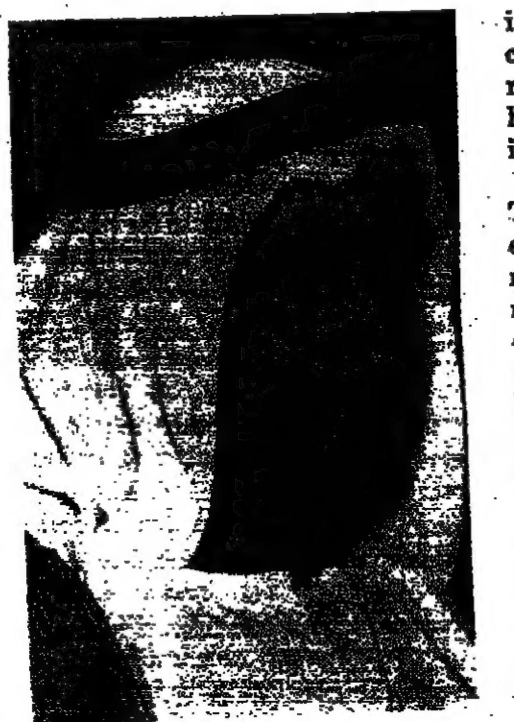
Advertisement

The United Arab Emirates

WORKING FOR A BETTER WORLD

Today, the United Arab Emirates (UAE) commemorates the twenty second anniversary of its establishment as an independent state. Situated on the southern shores of the Arabian Gulf, the country, headed since 1971 by President His Highness Sheikh Zayed bin Sultan Al Nahyan, has passed through a process of rapid development that has seen the creation of a modern society that enjoys both social stability and economic prosperity. At the same time, the UAE has quietly established itself as a state that is playing an increasing role in international efforts to alleviate the human suffering caused by natural disasters and conflict.



H.H. Sheikh Zayed bin Sultan Al Nahyan, President of the UAE

The UAE, is a federation of seven Emirates, Abu Dhabi, Dubai, Sharjah, Ras al Khaimah, Fujairah, Umm al Qaiwain and Ajman, and was created in 1971 at the end of a century and a half of British presence in the Arabian Gulf. Development began just 3 decades ago with the export of the first cargo of crude oil from Abu Dhabi in 1962. In 1968 the total population was still less than 180,000. There were hardly any proper roads. Housing for the majority of the citizens was almost all traditional and often primitive, and both health care and education were in only a rudimentary state. The first modern airport and port had only just been completed.

The UAE has become one of the world's most prosperous & harmonious welfare states.

Now, of course, twenty two years later, the UAE is very different. The government has made good use of the country's vast oil resources - the UAE is one of the world's top oil producers with reserves of over 100 billion barrels. More than three thousand kilometres of roads have been built, in a country whose total area is only 83,600 sq. km. There are now five modern airports, (a sixth comes into operation in 1994), handling millions of passengers a year, and some of the world's most advanced ports, two of which are in the top fifty container ports worldwide. Because of its superb infrastructure many foreign companies have set up their regional bases in the UAE, which has become a major centre of international commerce.

The population has risen to a 1993 estimate of 2.083 million. The number of children at school has risen from less than 30,000 to over 400,000. There are more than 15,000 students in various forms of higher education abroad and at home, including many in the country's own university, based in the inland city of Al Ain. Adult illiteracy has fallen from over sixty per cent in 1971 to 16.8 per cent today. A total of 150 literacy centres throughout the country provide the UAE's older generation with opportunities for learning not available to them during their youth.

120 million trees have been planted in a drive to 'green the desert.'

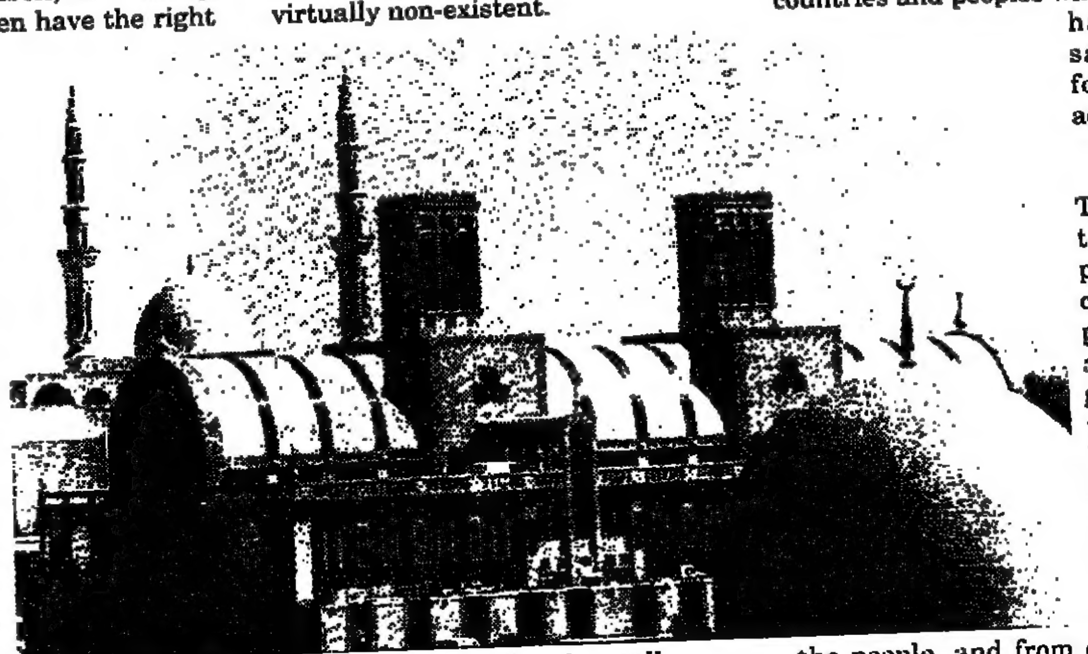
Infant mortality rates have fallen to 11.7 per thousand, and life expectancy has risen to 73 years for women and 70 for men, on a par with those of the industrialised countries of the developed world. Once endemic diseases like malaria and tuberculosis have been virtually eradicated. Health care provides 1 doctor for every 600 inhabitants, with modern hospitals providing access to the latest in medical techniques.

When the UAE was established, there were estimated to be only around 60,000 homes. Many, particularly in the rural areas, were primitive, without access to water, electricity or other services. There are now close to 400,000 homes, of which well over 50,000 have been built by the UAE government for free distribution to citizens. The main towns are full of fine villas, flats and sky-scrapers, many of impressive architectural design.

Since 1971 the number of children in schools has risen from 30,000 to over 400,000

In the social field, women have been encouraged to play their full role in the development of society outside as well as inside the home. More than 7,000 local women have now graduated from the Emirates University. Today a similar number are undergoing courses, and the UAE now has its first locally-trained women doctors, pilots and engineers. The country's armed forces have their own women's corps, the only such unit to exist anywhere among the Gulf States. The UAE Women's Federation, headed by the wife of the President, Sheikha Fatma bint Mubarak, has played a key role in encouraging this process, along with active support from President Sheikh Zayed himself, who firmly believes that women have the right to work in all sectors of the economy and public service.

On the edge of the Rub Al Khali desert, the UAE is one of the world's most arid states, with extremely high temperatures and low rainfall making it a place with very few natural opportunities for agriculture. Over the course of the last couple of decades, however, thanks to an extensive programme of encouraging agriculture through the use of desalinated water, over 100,000 hectares have been brought under the plough. A country which once had to import the bulk of its food is now self-sufficient in many vegetables and poultry and exports strawberries and flowers to Europe. Nearly 120 million trees, including 18 million palm trees, have been planted in a drive to 'green the desert.' and the UAE is now among the world's top producers of dates.



Sharjah - Shopping mall

Great efforts have been made to preserve the country's environment and wildlife. Captive breeding programmes have been set up to protect endangered animals such as the Arabian oryx and gazelle. Recent studies have shown that the UAE's bird-life, benefiting from the greener environment, is increasing year by year with more than 360 species already recorded. During the course of 1993 a new Federal Environmental Agency was established.

President Sheikh Zayed's ambitious programme to green the country has been so successful that Abu Dhabi the UAE's capital, with its many parks and gardens, has earned the accolade of "Garden City of the Gulf".

For the first time in 1993, troops of the UAE Armed Forces donned the 'blue berets' of the United Nations.

The UAE welcomes increasing numbers of tourists every year. The country has beautiful, unspoilt beaches, excellent five star hotels and good shopping. There are extensive sports facilities, ranging from golf clubs to ice-skating rinks. Visitors can look forward to a safe stay, as crime is virtually non-existent.

Preserving the nation's heritage is a priority too. Evidence dating back as much as 7000 years has been uncovered by an extensive programme of archaeological research. For thousands of years the local inhabitants have been trading by sea up the Gulf, to India and as far as China and Vietnam.

The UAE's concern for the protection of its environment and heritage is one sign of the country's maturity. Another is the increasingly significant role that the UAE plays in international affairs. Since the early 1970s, the UAE has been a significant donor of economic assistance, on highly concessionary terms, to states elsewhere in the Arab world and far beyond, helping to provide them with the funds they need for their own development programmes. Over 4 billion dollars in project aid has been granted, benefiting over forty states.

There has been aid of a more immediate nature too, in response to crises caused by natural disasters or by the calamities of war and civil conflict. Emergency aid has been provided to India and Pakistan to help these states cope with the aftermath of earthquakes and floods, and to the Muslim people of Bosnia, who have been the victims of barbaric atrocities.

For the first time during 1993, troops of the UAE armed forces donned the 'blue berets' of the United Nations, taking part in the UNOSOM I and in the UNOSOM II missions designed to restore stability and hope to conflict-ridden Somalia.

Despite its oil resources, the UAE is a small state, and has its own development programme to complete. Over the course of the last twenty two years, under the benign and visionary guidance of President Sheikh Zayed, the UAE is a country where the poverty and under-development of the past is a fading memory.

At the same time, consistent with the basic tenets of Islam, the government and people have always recognised and accepted their responsibility to help other countries and peoples who have not had the same good fortune or advantages.

The UAE's traditional political culture provides for a system of government where the legitimacy of the rulers derives from the support of the people, and from consultation and consensus. President Sheikh Zayed is in close touch with his people, regularly visiting them in their communities and always eager to listen to their opinions.

Captive breeding programmes have been set up to protect endangered animals such as the Arabian oryx.

The President's 'Open Door' style of government allows all citizens the right of access, to explain their views, encouraging the evolution of an informal, yet remarkably effective form of democratic government.

Confidently, but quietly, the government and people of the UAE have spent the last twenty two years creating a green and beautiful country and a developed society which is noted for its political stability, social harmony and economic progress.

For further information please contact the Ministry of Information and Culture, P.O. Box 17, Abu Dhabi, UAE.

Purchasing index points to US growth

By Michael Prowse in Washington

Reports of rising confidence in the US manufacturing sector and a strong gain in construction spending yesterday provided further evidence of buoyant economic growth in the current quarter.

The Purchasing Managers' Index – a guide to the manufacturing outlook – rose to 55.7 per cent last month against 53.8 in October.

The new orders component of the index soared to 64.8 per cent, one of the strongest results since the Reagan boom of the late 1980s.

This was the third consecutive monthly gain in the overall purchasing index and the strongest reading since the beginning of the year, when factory output was lifted by a surge of demand at the end of 1992.

Figures above 50 per cent indicate that the manufacturing economy is expanding.

Separately, the Commerce Department said that construction spending rose by 2.5 per cent in October and 9.8 per cent compared with the same period last year. This was the sixth consecutive increase in construction spending, the longest string of increases for seven years.

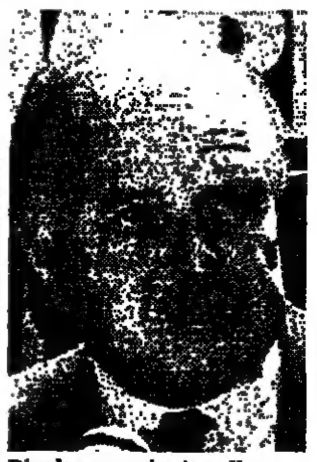
Trade figures yesterday confirmed that the speed-up of growth is causing a deterioration of the US external account. In the third quarter, the merchandise trade deficit rose 5.5 per cent to $34.4bn (£23bn), the biggest quarterly deficit for six years.

Officials also announced a slight revision to third-quarter growth figures. Real gross domestic product grew at an annual rate of 2.7 per cent rather than the 2.8 per cent previously reported. Growth of consumer spending and business investment was revised up, but the positive impact on growth was more than offset by upward revisions to the US trade deficit.

"The figures confirm that this quarter will be very strong," said Mr Bruce Steinberg, senior economist at Merrill Lynch, the US financial services group. He predicted growth at an annual rate of "4.5 per cent or perhaps even higher".

Many forecasters, including Mr Steinberg, expect the pace of growth to moderate early next year to an annual rate of 3 per cent or slightly less because consumer spending has outstripped growth of personal incomes, pushing the savings rate to a near record low.

Solution near in LA airport landing fees row



Riordan: promise to police

By George Graham in Washington

A potential shutdown of Los Angeles airport appeared to have been averted yesterday after representatives of the airport authority and the big airlines neared a deal over higher landing fees.

The airport this summer announced plans to triple its landing fees, and had threatened to shut down operations at midnight on Friday for airlines that refused to pay up.

Both sides were summoned by Mr Federico Peña, the US transportation secretary, for talks in Washington aimed at averting potential disruption at the US's third busiest airport, which serves around 120,000 passengers a day.

Mr Peña said on Tuesday night, after 14 hours of talks, that the two sides had reached agreement in principle, and talks resumed yesterday with the aim of finalising the deal.

US airlines pay more than $3bn (£2bn) a year in landing fees, and although this makes up only about 4.5 per cent of their costs, some carriers fear that airports across the country could be encouraged by Los Angeles's example to raise their fees.

The airlines, which are already in shaky financial condition after years of rising costs and cut-throat competition, are afraid of being milked by cities anxious for new revenue sources.

A separate case, in which airlines complained that higher fees at Grand Rapids airport in Michigan violated a federal law requiring them to be reasonable, was argued this week before the US Supreme Court.

Even after tripling its fees, Los Angeles would be a long way from the most expensive airport in the country. The increase to $1.56 per 1,000lb, or about $900 for a Boeing 747, would still leave Los Angeles charging far less than the three New York area airports or Chicago's O'Hare.

With the exception of Qantas, all the big US and foreign airlines had refused to pay the higher landing fees, and have filed a lawsuit against the increase.

Mr Richard Riordan, Los Angeles's new mayor, promised in his election campaign to raise money from the airport to pay for more police officers, but he has backed away from this, which would be an illegal diversion of funds because Los Angeles received federal grants to help pay for capital improvements at the airport.

Los Angeles serves as an important hub for flights between the US and the Asia-Pacific region, with around 2,000 take-offs and landings a day.

Peña: called talks

Chile may have to cut 1994 budget

By David Pilling in Santiago

CHILE may have to cut its 1994 budget because of the continued sharp impact of the international downturn, according to Mr Juan Villarzú, the man widely expected to be named finance minister after general elections on December 11.

Mr Villarzú, economic co-ordinator for presidential front-runner Mr Eduardo Frei, said the next administration would "probably be obliged to revise the 1994 budget which was made when copper prices were higher... and with the expectation of 5 per cent growth".

Chile had planned a 5.4 per cent budget increase next year to $11.4bn (£7.6bn).

Weak prices for Chile's principal exports – copper, cellulose and fishmeal – meant that growth next year would probably be around 4 per cent, he said. The next administration would seek to implement a "slightly different monetary and fiscal mix" by bringing in a temporary tax, possibly on petrol, which would allow an easing of interest rates. Such a combination would encourage investment and slow the appreciation of the peso.

Mr Villarzú is likely to pursue broadly similar policies to those of the current finance minister, Mr Alejandro Foxley, a fellow Christian Democrat.

OECD survey warns that prospects depend on US growth

Canada set for gradual recovery

By Bernard Simon in Toronto

Canada can look forward to a gradual economic recovery next year, with rising productivity and subdued inflationary pressure, according to the Organisation for Economic Co-operation and Development's annual survey of the Canadian economy.

But the survey warns that prospects depend heavily on the pace of recovery in the US, which is by far Canada's biggest export market, and on success in coming to grips with towering federal and provincial budget deficits.

The OECD forecasts 3.9 per cent real growth in gross domestic product in 1994, up from 2.7 per cent this year and 0.7 per cent in 1992. The recovery has so far been based mainly on strong export growth. This is forecast to continue in the year ahead, but should be accompanied by substantially higher household spending and business investment and a strong housing market rebound.

Inflation, measured by the GDP price deflator, is projected at a modest 1.8 per cent in 1994, compared with 0.8 per cent this year. However, the unemployment rate will drop only marginally to 10.9 per cent from 11.2 per cent.

The OECD cautions that "heavy government borrowing has left the economy vulnerable to changes in financial market sentiment, leading to increased short-term interest rate volatility and higher long-term credit costs". It adds that continuing fiscal discipline in the public sector "appears crucial to the maintenance of easier monetary conditions and the achievement of lower long-term rates".

A feature of Canada's recent performance has been a surge in productivity, with businesses adjusting remarkably quickly to such structural changes as the 1989 free trade agreement with the US, privatisation and tax reform. "The better domestic cost performance along with exchange-rate depreciation has significantly improved international competitiveness," the OECD concludes.

But the report says that the prospects for long-term growth would be enhanced by further reforms, including the dismantling of inter-provincial trade barriers, lower farm subsidies, and improved education and healthcare systems.

Canada's generous social-security net is also singled out as a source of concern. The new Liberal government has indicated in recent weeks that it plans to overhaul the entire social security system.

Argentine judges urged to resign

By John Barham in Buenos Aires

POLITICAL pressure on Argentina's Supreme Court to resign intensified yesterday following Mr Antonio Boggiano's resignation on Tuesday as court president.

Mr Boggiano quit after five of his colleagues said they no longer recognised his authority, following accusations by two fellow justices in September that he had tried to replace a court ruling against the central bank with a favourable one. However, he will remain a member of the nine-member court.

The ruling Peronist and opposition Radical parties are demanding that at least three court justices resign immediately.

A purge of the Supreme Court is one of the Radicals' conditions for supporting reform of the constitution, which is needed to allow President Carlos Menem to stand for re-election when his six-year term ends in 1995.

Mr Eduardo Duhalde, the influential Peronist governor of Buenos Aires province, said yesterday that their resignations "are overdue, there is no longer any space for anything else".

Last week, three cabinet ministers demanded resignations in the court. Mr Domingo Cavallo, economy minister, said all nine should be impeached by Congress. He has publicly accused two justices of corruption.

Supreme Court justices are appointed for life to insulate them from political interference. But their reputation has been severely damaged by repeated allegations of corruption, incompetence and submission to the government.

Nonetheless, there is widespread belief that a purge could further undermine the rule of law.

The Radicals argue that the Supreme Court lost its independence when Mr Menem appointed five pro-government justices shortly after he took office in July 1989.

Mr Raúl Alfonsín, the Radicals' leader, demands that the government force the resignation of at least three of the court justices as a gesture of good faith before Friday's Radical party conference, which is to ratify talks with the government.

Falkland Island oil hopes

By Stephen Fidler, Latin America Editor

Britain's Foreign Office yesterday played down the significance of a survey suggesting a good chance of finding oil in the South Atlantic around the Falkland Islands.

Mr Phil Richards of the British Geological Survey, which carried out a seismic survey around the islands this year, said yesterday: "The potential is good all around the islands. But we will not know exactly how much oil is there until someone starts digging."

The zone around the islands with the type of geological formation most likely to contain oil was 50 per cent larger than the British section of the North Sea, the survey said.

But the Foreign Office said any new information could only be preliminary, since full seismic data would only become available next year. It further emphasised that seismic studies in themselves could not ensure the presence of oil.

A round of exploratory drilling and more seismic tests were planned. Only after drilling could the presence of oil be guaranteed.

Even then, it would be uncertain whether oil was available in commercial quantities, particularly given the difficult conditions in the waters around the islands, whose sovereignty is disputed between Britain and Argentina.

Mr Douglas Hurd, UK foreign secretary, said this year that co-operation oil oil exploration with Argentina remained a possibility. Oil company executives have said large-scale investment of oil development in the region would require a more explicit agreement on sovereignty than exists at present.

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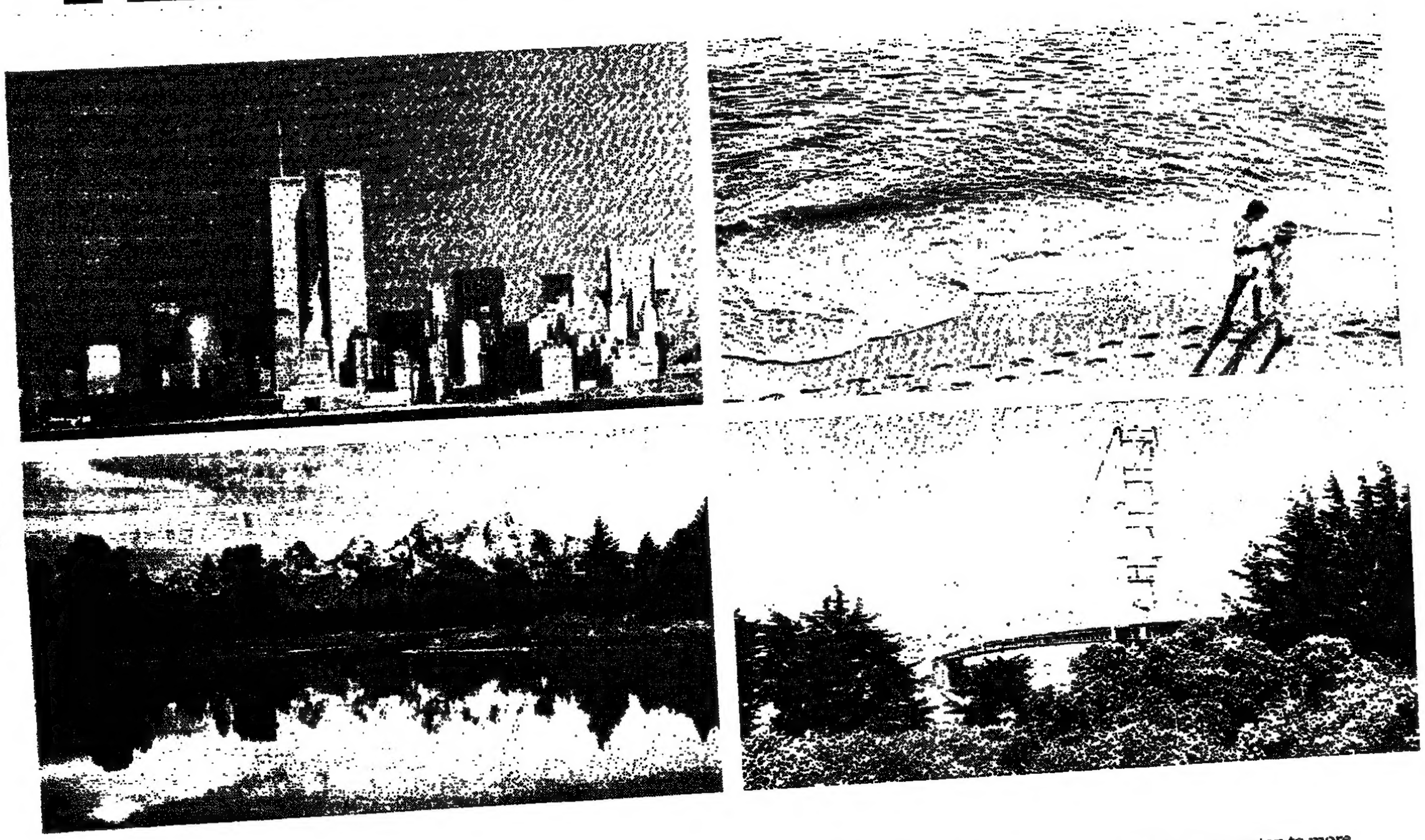

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Mixed signals from China on Hong Kong

By Simon Holberton in Hong Kong and Alexander Nicoll in London

China is issuing conflicting signals over Hong Kong even though failure to reach agreement in Sino-British talks is expected today to lead Mr Chris Patten, the colony's governor, to announce he is pressing ahead with the first stage of his proposals for broader democracy.

Mr Patten is expected to tell legislators that he will introduce a bill dealing with "straightforward" issues concerning Hong Kong's elections next year and in 1995, leaving the most contentious aspects open for further discussion with Beijing if talks should continue.

Although Chinese officials have warned against this step, there has been a softening in their rhetoric by comparison with other difficult periods in relations over Hong Kong. The threat that no more talks would take place if Mr Patten proceeds has so far been absent from their comments.

Meeting businessmen from Hong Kong, Mr Lu Ping, director of Beijing's Hong Kong and Macao Affairs Office, made no reference to talks ending if Mr Patten put his bill to Hong Kong's Legislative Council.

However, it also emerged yesterday that Britain's confidence that China would honour the 1984 Joint Declaration on Hong Kong was shaken in the latest round of talks in Beijing at the weekend.

It was understood that Beijing told British negotiators China would reintroduce appointments to Hong Kong's local government if Mr Patten abolishes this system and has all seats elected.

According to the Hong Kong Economic Journal, a leading business paper, Mr Christopher Hum, head of the UK team, pointed out this went against the Joint Declaration and the Basic Law which vest such power in the Hong Kong government that succeeds Mr Patten's administration.

The Chinese remark was seen as potentially undermining the Joint Declaration's statement that after sovereignty reverts from Britain to China in 1997, Hong Kong will enjoy a "high degree of autonomy", with "Hong Kong people ruling Hong Kong".

Despite the apparent breakdown of the talks, British officials point out that China has agreed to attend a meeting in London next week of the Joint Liaison Group, the body charged with working out details of the 1997 transfer.

Beijing has not yet responded to London's request for a further round of talks on political development, the officials said.

Mr Tsang Yok Sing, a pro-Beijing Hong Kong politician, said in a radio interview from the Chinese capital that talks could proceed as long as Legco took no final decisions.

Mr Zhou Nan, Beijing's top official in Hong Kong, assured Hong Kong political figures visiting Kunming that China would do its best to preserve Hong Kong's prosperity and stability even if Britain acted unilaterally on the political front.

Lord Howe, the former UK foreign secretary who negotiated the Joint Declaration, said yesterday that it was overridingly important for Britain and China to renew their commitment to a common course leading to agreement over Hong Kong.

Japan paying prices of recession

William Dawkins on the gloom in Tokyo's consumer electronics shops

The lights are going dim in Akihabara, the neon-festooned electronics district of Tokyo, consumer test-bed for world-beating gizmos like the Walkman and the compact disc player.

Akihabara, where the Japanese splash out 5 per cent of their ¥6,000bn (£38bn) a year spending on consumer electronics, is a sensitive indicator of consumer sentiment. In some places, the recession has hit so hard that the lights have gone out.

One is Hirose Musen, one of the four small chains to have closed there in the past four months. A picket line of former employees shivered outside one of Hirose Musen's shuttered shops last week, with their backs to a lifeless neon sign, politely requesting their jobs back.

A stroll through some of the other 500 stores in the area makes it is easy to see why Hirose Musen's owners closed their three Akihabara shops. Noodle bars tucked under railway arches nearby appear to be attracting more custom than the gaudy arcades of Akihabara's main outlets. Many report that sales this year are down at least 10 per cent and some, like Nakaura, are so desperate they have sent out salesmen to make house-to-house calls.

Prices are at the bottom. In good times, Akihabara sales tickets show two figures: the manufacturer's price, which has a line through it, plus the sale price, the point from which one is expected to open bargaining.

These discounts were not as generous as they looked, since they were strictly controlled by suppliers. But last week, sale prices too were scored through with thick black lines. Discounts on a given brand name varied between shops, indicating that suppliers' grip on margins has weakened. Discounts include 40 per cent off miniature televisions at ¥11,800 and 25 per cent off digital audio tape machines, down to ¥55,800.

The range of gadgets is as dazzling as ever, as suppliers and shops try in vain to revive consumers' jaded tastes. But general consumer spending in the year to the end of September was down 0.4 per cent, compared with a rise of 2.8 per cent in the same month last year, according to the Economic Planning Agency.

The problem is that people are earning less as their companies slash costs, and are at the same time saving more to rebuild wealth eroded by the fall in land prices. Real incomes only rose by 1.2 per cent in the year to September, while savings as a proportion of disposable income rose to 18.2 per cent last year, from 17.9 per cent in 1991, says the EPA.

On top of this, Akihabara has its own problems. What remains of diminished demand is shifting away from traditional consumer electronics, white goods and components – and stabilising or growing slightly in computer games, computers, compact discs and tapes.

Even worse, Akihabara has lost its already questionable reputation for the lowest prices, thanks to the arrival of aggressive discount stores in suburbs such as Shinjuku and Ikebukuro. They are winning market share. Discount stores generally are expecting double-digit sales growth this year, according to a survey by the Nihon Keizai Shimbun newspaper.

Akihabara's stores have responded in varying ways. One of the larger ones, Shintoku, threw out its old stock and filled one of its four shops with Sega computer games last November. It turned another into a CD and video cassette store, called Shintoku Soft Terminal. The strategy was not enough to erode Shintoku's mounting debts and the store filed for bankruptcy last month with liabilities of ¥6.96bn, Akihabara's biggest collapse.

Laox, the biggest store, has been more successful. It had expanded out of Akihabara before the recession hit and has become rich enough to use the downturn to expand market share, by taking over one of its struggling neighbours.

Laox has also led an Akihabara trend, to devote more space to selling computers, from which the district now derives about 30 per cent of sales and to concentrate more on supplying a service than giving discounts. As part of the same trend, a shop closed by Asia Musen, another recent Akihabara casualty, was taken over by Sofmap, a retailer of used personal computers.

This is, however, a risky strategy. The profit margin on computers is even smaller than that on consumer goods, points out Mr Harrison Bates, retail analyst at James Capel Pacific. Akihabara is heading for a tough Christmas.

Akihabara shopkeeper almost hidden behind an array of electronic consumer goods

Donors' generosity overwhelms Uganda

By Leslie Crawford, recently in Kampala

When the World Bank and other donors abruptly cancelled their support for Uganda's National Aids Secretariat, the shock waves went through the entire edifice of donor-funded projects that prop up Uganda's economy.

The secretariat had appealed in November for $450m to fund a "multisectoral" plan to combat the disease. It proved to be the last straw for donors already exasperated by the failings of the secretariat. "We are interested in fighting Aids, not funding an Aids bureaucracy," one of the donors present at the meeting explained.

The secretariat's staff had not been up to the job, causing donors to question whether they had been too ambitious for one of their model pupils in Africa.

Uganda has been smothered with aid since President Yoweri Museveni's government adopted a World Bank-approved programme of economic reforms six years ago. The international community, delighted with Mr Museveni's enlightened, if unelected, leadership, pledged more than $825m in aid this year, an amount equivalent to a quarter of Uganda's gross domestic product.

Foreign aid finances 60 per cent of government spending. Even the luggage trolleys at Entebbe airport say "donated by the UN Development Programme". Aid has financed every development project since the end of the civil war in 1986. Most of it has gone on rebuilding roads, dams, electricity and telephone systems destroyed during the war. Donors are also involved in rebuilding civil society: providing judges to train new magistrates, inspectors for the police force, and cash for the demobilisation of soldiers.

But their generosity has begun to outstrip Uganda's ability to absorb the aid. The World Bank estimates it has a backlog of projects worth $750m awaiting implementation. In some cases the government has been unable to contribute the 10 per cent counterpart funding for projects demanded by the World Bank. In others, the underpaid bureaucracy has been slow to get projects off the ground.

"I think we have reached the point where we have to take a hard look at the amount of aid Uganda is getting," says Mr Chukwuma Obidegwu, the resident World Bank economist in Kampala. "My main concern is that it discourages Ugandans from developing the exports that would reduce their dependence on aid."

The inflow of dollars has led to an appreciation of the Ugandan shilling, which is now overvalued. This has undermined donor-funded efforts at export promotion and diversification. As the trade deficit widens, Uganda has become more dependent on donors for balance of payments support.

Aid money is also feeding an industry of consultants. Virtually every government ministry has a clutch of expatriate "advisers". Their standard pay is $10,000 a month, or about 100 times the salary of a senior Ugandan civil servant.

One official said he knew of an international firm of chartered accountants who charged $200,000 for a report on accounting information systems for the public sector. "It was copied straight out of a first-year accountancy text book," he said. Its recommendations were not implemented.

Although most aid is being put to good use – building roads, repairing hydroelectric dams, providing essential drugs – its abundance is breeding corruption.

Diplomats in Kampala speak openly and disparagingly about government ministers who are on the take.

S Korean industry leader arrested for fund diversion

By John Burton in Seoul

The South Korean government denied yesterday the arrest of the head of Hanhwa, the country's ninth largest business group, signalled a crackdown on leading conglomerates, or *chaebol*.

Mr Kim Seung-youn, Hanhwa chairman, is the nation's first incumbent *chaebol* leader to be prosecuted. He is charged with illegally diverting funds to buy property in the US in violation of foreign exchange laws.

He is the third prominent businessmen to be prosecuted since the reformist President Kim Young-sam was inaugurated in February.

Mr Chung Ju-yung, the founder of Hyundai, was recently convicted of illegally diverting corporate funds for his failed presidential campaign against President Kim last year.

Mr Park Tae-joon, founder of Pohang Iron and Steel, the world's third largest steelmaker, fled to Japan in March after he was charged with illegally using corporate funds to support Mr Kim's conservative political opponents.

Hanhwa's Mr Kim also has close ties with the president's opponents within the ruling Democratic Liberal party.

Critics have accused the president of engaging in a political vendetta against his foes by ordering investigations of the business leaders.

President Kim has criticised the *chaebol* for benefiting from links with the country's former military dictatorship and proposed measures to reduce their dominant position in the Korean economy. The Hanhwa chairman's arrest surprised observers since the president has recently adopt a more conciliatory approach toward the *chaebol*.

Japanese sales of vehicles fall further in November

By Michiyo Nakamoto in Tokyo

The severity of the downturn in Japan's vehicle market was underlined yesterday by figures showing that new vehicle sales in November fell 7.7 per cent, the eighth consecutive monthly decline.

According to the Japan Automobile Dealers Association, passenger cars suffered a 7 per cent decline in spite of the introduction by several makers of new models in the autumn. Truck sales were down nearly 9 per cent, reflecting the overall weakness in economic activity.

Mr Futoh Fujii, vice president of Nissan, noted in an interview last week that the Japanese car industry could face a "double dip recession".

Such concerns were supported by the weakness of demand in November, which is the peak year-end sales period as it comes before consumers receive their bonuses in December.

Failing a November pick-up, car makers will probably have to wait until the spring for the next opportunity for demand to gather pace, a Honda official said.

The downturn in the domestic market has come as exports have also been forced lower, largely as a result of the yen's strength and sluggish demand particularly in the European Union.

Japanese manufacturers have had to scale back production plans significantly in order to adjust inventories. Mazda had a two-day closure last month, and Nissan will follow suit this month.

Honda plans to halt production for four days between this month and next April and to reduce output by about 10,000 units.

Malaysia seeks Keating apology

By Kieran Cooke in Kuala Lumpur

A row over remarks by Mr Paul Keating, Australia's prime minister, about his Malaysian counterpart, Dr Mahathir Mohamad, shows signs of worsening. Mr Keating had called Dr Mahathir recalcitrant for not attending last month's Asia Pacific Economic Co-operation summit in Seattle.

Yesterday, Mr Ahmad Badawi, Malaysia's foreign minister, said Australia's high commissioner in Kuala Lumpur had been called to the Foreign Ministry and a protest had been made. A similar protest was lodged at Mr Keating's office by the Malaysian High Commission in Canberra.

While Dr Mahathir seemed at first to play down the issue, his ministers have been increasing their attacks on Mr Keating and have demanded a public apology. Mr Samy Vellu, energy and telecommunications minister, said yesterday that he had directed departments under his ministry to review business ties with Australia.

Australian businessmen and investors in Malaysia are concerned about the consequences of a prolonged row. Malaysia has become one of their most important overseas markets. Trade between the two countries was worth M$4.5bn (US$1.76bn) last year, with the balance well in Australia's favour.

Australia also earns substantial amounts from an estimated 8,000 Malaysian students in the country, and Malaysians are among the leading buyers of Australian property.

Mr Mohamad Rachmat, Malaysia's information minister, has already announced a ban on Australian television programmes and advertising material. The state-controlled broadcasting service would also broadcast only negative views about Australia.

Dr Mahathir did not attend the Seattle meeting because he said Apec was in danger of becoming dominated by the US and being turned into a structured trading group like the European Union.

At the summit, Mr Keating, clearly exasperated at frequent questions by Australian journalists about Dr Mahathir, said he did not care about the Malaysian prime minister's position.

"I am sick of questions about Dr Mahathir... Apec is bigger than all of us... Australia, the US, Malaysia, Dr Mahathir and other recalcitrants."

In a subsequent television interview he hinted that demands for an apology by Malaysia were based on feigned indignation and suggested that Kuala Lumpur owed multiple apologies to Australia for various unspecified slights.

Israeli army reinforces West Bank

By David Horovitz in Jerusalem

The Israeli army rushed troop reinforcements to the West Bank yesterday after Palestinian gunmen shot dead an Israeli woman on the main street of the town of al-Birah.

Hamas, the Islamic fundamentalist movement which opposes the autonomy deal between Israel and the Palestine Liberation Organisation due to take effect in the territories on December 13, took responsibility for the murder, and vowed to continue attacking Israelis in revenge for the recent killings of some of its leaders by Israeli troops.

Speaking in Brussels Mr Yitzhak Rabin, Israel's prime minister, noted: "Every incident like this... damages the belief of many in Israel that peace is possible." Nonetheless, Mr Rabin, who continues his European visits with a trip to London today, said he intended "simultaneously to fight terror and to move forward in implementing" the autonomy accord.

Yesterday's shooting took place when the car carrying a Jerusalem kindergarten teacher to her school in the West Bank's Beit El settlement broke down on the outskirts of nearby al-Birah. Gunmen opened fire on the vehicle with automatic weapons.

In protest, Jewish settlers briefly blocked a main West Bank road leading to Jerusalem, and have vowed to block all thoroughfares in the territories for several hours today, paralysing Palestinian movement.

At a meeting with Israeli army officers, settler leaders accused the military of failing to protect them. They have already announced plans to set up their own security force to guard settlements once the autonomy period begins, and yesterday they unveiled a programme to try to establish dozens of new settlements, in defiance of government policy, in order to frustrate Palestinian efforts to create an independent state in the occupied territories.

The Gaza Strip, where clashes on Tuesday left one Palestinian dead and more than 60 injured, was calmer: the army suspended its hunt for "wanted" Palestinian militants, and declared the area a "closed military zone" to keep journalists away.

Reuter adds from Brussels: Mr Rabin yesterday met Mr Jean-Luc Dehaene, Belgian prime minister, and won early European Community support to upgrade a 1975 co-operation agreement with the 12-member bloc. Mr Rabin said Israel was interested in updating its relationship with the EC in a bid to advance Israeli industry and agriculture.

"We hope the Council of Ministers of the Community will approve the mandate soon to start formal negotiations about the updating of the 1975 agreement with the EC," he said after meeting Mr Dehaene, whose country holds the rotating EC presidency.

Mr Dehaene said he had underlined the importance of sustaining the peace process in the Middle East as well as reviewing the association agreement with Israel.

An Israeli soldier looks into a shot-up car in which a civilian died yesterday Reuter

ADB changes loan strategy

By Jose Galang in Manila

The Asian Development Bank will link future lending to policy liberalisation that will make the economies of borrowing countries more open, Mr Mitsuo Sato, the new bank president, said yesterday.

Mr Sato, who took over from Mr Kimimasa Tarimazu, who retired on November 24, told a press conference that during his term the ADB would encourage more of its member countries to "shift to greater democratisation, to market-oriented economy, and to greater openness [of their economies] to the outside world".

The Manila-based ADB counts among its members the high-growth "tiger economies" of east Asia, most of which, however, have been identified with authoritarian governments or protective economic policies.

Before his election to the ADB top position, Mr Sato was deputy president of the Tokyo Stock Exchange. He is credited with opening up membership of the exchange to foreign groups. He had served previously in Japan's Finance Ministry.

Mr Sato stressed, however, that the new strategy would be manifested in "policy dialogues" with borrowing member countries. It would not be a strict condition similar to those imposed by the World Bank and International Monetary Fund in their own lending criteria. He said these policy discussions would focus solely on economic matters and "not in general terms."

While opposition lingers over a capital increase for the ADB, Mr Sato said yesterday he was confident the bank's lending programme for the coming year would not decline as had been feared by some groups.

"We have agreed on the need to raise capital," he said, although certain "policy questions" remained to be sorted out.

"There is a clear consensus among board members that an agreement will be reached by the end of the year."

In the first nine months of the year, ADB lending totalled nearly $2.6bn (£1.7bn), an increase of 11 per cent from the year before. Equity investments amounted to $16.4m, up 3 per cent. In the whole of 1992, total lendings reached $5.1bn, up 6.9 per cent from the previous year, while equity investments and underwriting came to $15.8m, down 44 per cent.

Setback for Hindu party

By Stefan Wagstyl in New Delhi

The Bharatiya Janata party, India's Hindu militant opposition party, whose supporters last year stormed the Ayodhya mosque, yesterday looked set for its third defeat in six state elections held last month.

With counting virtually complete, the BJP seemed set to lose control of the central state of Madhya Pradesh to the ruling Congress (I) party.

The BJP has previously conceded defeat to Congress in the northern state of Himachal Pradesh. In Uttar Pradesh it faces defeat at the hands of a coalition led by the Samajwadi party and the Bhagan Samaj party, a populist alliance. The BJP is likely to retain control of Rajasthan and has won a clear victory in the city of Delhi. Counting in the small state of Mizoram in the north-east has yet to start.

The results are a serious setback for the BJP, which had hoped the Ayodhya mosque's destruction last December would help the cause of Hindu nationalism. Instead voters have deserted the party, partly in protest at the violence and unrest which the sacking of the mosque provoked and partly because of the administrative performance of BJP state governments.

See Indian elections feature

Left-winger takes Labour leadership in New Zealand

By Terry Hall in Wellington

Ms Helen Clark, a former university lecturer who was elected early yesterday as leader of New Zealand's opposition Labour party, has indicated that she wants to turn Labour back to its socialist roots, and has spoken of the need to raise taxes to help the underprivileged.

A left-wing group, led by activist women party workers, achieved their aim of seeing Ms Clark elected. The caucus vote, by 26 to 19, ended a gruelling and bitter battle to oust Mr Mike Moore, who argued that Labour should be a centrist party, with appeal to all sections of the community.

Mr Moore, who was consistently rated among New Zealand's most popular politicians, argued that those who plotted against him overlooked his role in holding the party together after its devastating 1990 loss, leading to its near win in the general election three weeks ago.

In an apparent effort to retain the backing of Moore supporters, many of whom back the shift to the right of recent years, the party caucus voted to appoint Mr David Caygill as deputy leader. Mr Caygill is on the right of the party and as finance minister in 1988 and 1989 after the sacking of reformist Sir Roger Douglas continued to promote monetarist economic solutions.

The appointment of Mr Caygill is seen as a further blow to Mr Moore, who wanted Dr Michael Cullen, Labour's finance spokesman, to be deputy leader. It is being widely questioned how Mr Caygill will be able to accept the left-wing agenda that Ms Clark is promoting. During the election Mr Caygill spoke against any significant watering down of legislation which deregulated the labour market, and is also believed to oppose tax increases.

The party divisions and deep rifts that opened during the battle to oust Mr Moore, are leading to growing beliefs that Labour cannot survive for long in its present form, and that the right-wing group may form a new party.

There is also talk that some right-wing MPs from the ruling National party may join such a group, in anticipation that they would achieve a degree of political power under the German proportional voting system which will be used in the next election.

Adding to the confusion, Mr Moore also said last week that if he was defeated he would consider forming a "new" Labour party, although yesterday he pledged that he would continue to support Labour.

Ms Clark is the first woman to lead a main New Zealand political party. She said yesterday the party needed to find ways to work together in the spirit of consensus politics. "Above all we need to build a compassionate Labour party which serves the needs of all New Zealanders."

UK and Ireland agree summit date

By David Owen and Tim Coone

The British government's credibility on Northern Ireland was severely tarnished last night when it admitted that mistakes were contained in secret documents released on Monday detailing exchanges with Republican leaders.

The admission followed confirmation that Mr John Major and Mr Albert Reynolds will tomorrow make a concerted attempt to bridge differences between London and Dublin over a constitutional settlement for the province. The meeting will come amid signs of mounting strain in their relations.

Meanwhile the Northern Ireland Office was at pains to emphasise that the mistakes were the result of transcriptional typing. But the admission, which is expected to be pounced on by Unionist MPs in the Commons today, followed threats by Sinn Féin to "set the record straight" amid claims that some of the British documents were bogus.

The statement came as the IRA claimed the government proposed holding secret talks in March in Scotland or Scandinavia.

It said: "We wish to confirm that . . the British Government made a definitive proposal for full-blown delegate meetings between their representatives and Sinn Féin."

It claimed the government asked for an unannounced suspension of activity to help accommodate the meetings.

But Downing Street denounced as "complete rubbish" the claim that Britain sought talks in Scotland or Scandinavia.

"This is yet another attempt by the IRA to divert attention from our challenge to them to declare a total cessation of violence," a spokeswoman said.

Both London and Dublin were last night playing down expectations of what the "working" summit between the two prime ministers was likely to achieve, billing it as the first of two or three important sessions that could take place before Christmas.

At least one additional meeting between the two leaders – at next week's European Council in Brussels – might well be needed before a joint communiqué could be agreed. The two prime ministers would be accompanied tomorrow by other senior ministers.

The main sticking point is understood to be Dublin's insistence on including acceptance of the principle of self-determination for all people of Ireland in any communiqué.

According to officials in Dublin, this would imply an all-Ireland referendum on changes to Northern Ireland's constitutional status, although these would need to have consent of a majority in the province.

Downing Street hinted last night that it regarded Ulster Unionist acceptance of the content of any joint communiqué as crucial, saying: "It is getting words that can command support throughout Northern Ireland – that's a key factor."

While admitting that "great difficulties" remained, Mr Dick Spring, the Irish foreign minister, yesterday held out the hope that agreement was possible before the end of the year.

In a separate move, Downing Street denied coming under pressure from Washington to secure a Northern Ireland agreement during a phone conversation last week between Mr Major and Mr Bill Clinton. The US president said he would be "watching and cheering from the sidelines," it said.

Ashley Ashwood

An Irish tricolour flies in the distance in the nationalist Springhill area of West Belfast yesterday as British troops patrol not far from the home of the Sinn Féin president Gerry Adams

Lloyd's sets offer to Names

By Richard Lapper

Lloyd's of London yesterday put the final touches to a settlement offer for loss-making Names, expected to amount to about £900m.

The offer, detailed in a 200-page document, will be sent to over 21,000 Names – the individuals whose assets support underwriting at Lloyd's, about 2,000 of whom live in the US – and made public next week.

The Names, who are claiming £3.5bn in compensation from their agents, will be offered varying amounts of compensation depending on their syndicates and their chances of legal success.

It is understood that up to two-thirds of the amount of compensation – or between £500m and £600m – could be channelled to about 5,000-6,000 Names who were members of Feltrim and Gooda Walker syndicates, allowing for settlement of their claims of about 50p in the pound.

Names on some other loss-making syndicates, who are thought to have a slimmer chance of winning compensation through the courts, will be offered smaller amounts.

Compensation will also reflect a series of other factors. Names involved in legal action are expected to be offered greater sums, especially if their cases have been given court dates. The worst hit Names, who were members of heavy loss-making syndicates, should also receive above average compensation.

Finance for the settlement will come from three main sources. Errors and omissions insurers, which cover agents against legal awards for negligence, are expected to pay up to £400m, while Lloyd's is expected to make a contribution of at least £400m from its central fund, which pays claims when Names are unable to meet their obligations.

● A senior figure at Lloyd's yesterday cast doubt on continuing the insurance market's 300-year-old tradition of unlimited liability for Names.

It follows the successful admission of investment trusts and companies backed by corporate investors in the past few months. Mr Robert Hiscox, deputy chairman of the market, said Lloyd's should next year "stand back and consider" whether it should allow new unlimited liability Names.

UK will oppose EU-wide fuel tax

By Bronwen Maddox, Environment Correspondent

The UK will reaffirm its opposition to a co-ordinated Europe-wide tax on fuels at the two-day EU environment ministers' meeting beginning today in Brussels. The steady annual increases in fuel duties announced in Tuesday's budget emphasise the UK's determination to go its own way in setting taxes, said Mr Tim Yeo, environment minister.

Proposals for a coordinated energy tax, weighted towards fuels with the highest carbon content, have been at the heart of the EU's plans for meeting its commitments under the Rio convention. The EU pledged to bring carbon dioxide emissions, implicated in global warming, back to 1990 levels in the year 2000.

However for the EU to ratify the convention, its member countries need to agree a plan for cutting carbon emissions.

"It is inconceivable that the Treasury will change its mind" Mr Yeo said. The Treasury has opposed a carbon-energy tax because of fears that this would put a heavy burden on industry.

If the meeting fails to reach agreement on a plan for cutting carbon emissions, the UK may ratify the Rio treaty on its own, Mr Yeo said.

Britain in brief

New order for over 200 army tanks

The government bowed to political and military pressure by again raising its ceiling for future army manpower and announced plans to buy up to 259 Challenger 2 tanks.

Britain is also to purchase new helicopters for the RAF, including the Anglo-Italian EH101 in which Westland is a partner, and tenders are being invited for up to seven new minehunters.

Mr Malcolm Rifkind, secretary of state for defence, said that front-line units would be strengthened by a further 3,000 troops. His statement was aimed at fending off criticism that financial cuts will damage the forces' fighting capability. A contract for Challenger 2 tanks is to be negotiated with Vickers in preference to earlier plans for updating existing Challenger 1s. About £800m is thought to be budgeted for the order, expected to be concluded next year.

Mr Rifkind also announced that contracts would be negotiated to provide the RAF with a mixed support helicopter fleet of EH101s and Boeing Chinooks. Tendering for additional Sandown class minehunters, also announced yesterday, will be restricted to UK yards, including Vosper Thornycroft which built the first five of the class.

M&S signs power deal

Marks & Spencer has signed a contract with Northern Electric for the supply of electricity to 160 stores around the country. The deal, worth over £10m a year, is one of the first of a new generation of contracts intended to take advantage of the next step in the deregulation of the electricity market next year. The deal covers approximately half of M&S stores.

Chalker to visit South Africa

Overseas aid minister Baroness Chalker is to meet visit President F W de Klerk, Inkatha Freedom party leader Chief Buthelezi and members of Nelson Mandela's African National Congress when she visits South Africa, Mozambique and Botswana next week.

Arms for Iraq warning missed

A senior government official failed to read intelligence warnings that British-built machine tools were being used to make Iraqi missiles because he was too busy, the Scott inquiry heard.

Tony Steadman, who headed the Department of Trade and Industry export licensing branch from 1987 to 1991, also admitted "circumventing" Whitehall procedures designed to stop equipment reaching Saddam Hussein's weapons factories because they were "too cumbersome".

Phone numbers liberalised

British Telecommunications will lose control of the allocation of phone numbers early next year, under plans announced by Oftel, the industry regulator.

A Numbering Administration Unit, under Oftel's charge, will start work in January, taking over responsibility for allocating blocks of numbers and "nationally significant codes." Mr Don Cruickshank, Oftel director general, said: "numbering is an essential element in the development of a competitive market in new telephony services in the UK."

Meanwhile a small Cheshire-based company has launched what it claims is the first national service offering personal telephone numbers.

Flextel, which holds a government telecoms licence, is offering subscribers personal numbers which they can reroute at will, for a fee of £24 per number per year.

A service is already on offer in the US and at least one private company, Numbering Viewed Worldwide, is developing a service for the UK.

ICI wins award for innovation

ICI won the Royal Academy of Engineering MacRobert Award, the UK's premier prize for innovation in engineering, for developing a new refrigerant to replace ozone-depleting CFCs (chlorofluorocarbons).

The £50,000 award, which attracted more than 50 entrants, was presented at the Science Museum in London by the Duke of Edinburgh.

Joint venture in switchgear

One hundred new jobs will be created in Wolverhampton following the decision of MK Electric of London, and Merlin Gerin, a French-owned company in Telford, to form Ajax Electrical, a joint venture for the investment of £5.6m in a new electrical switchgear factory.

The investment has been sweetened by £650,000 of regional selective assistance from the department of trade and industry. Wolverhampton City Challenge provided £100,000 to refurbish an existing factory of Federal Electric, a Merlin subsidiary, next door to the proposed Ajax plant.

UK promotion funds increased

The government has increased funding for the promotion of the UK abroad and reduced proposed cuts in the budget of the English Tourist Board.

Mr Peter Brooke, national heritage secretary, said that the increased funding was in recognition of the importance of the tourist industry to the UK economy and the success of the British Tourist Authority in attracting record numbers of overseas visitors.

Government funding of the BTA is to rise from £32m in 1993-4 to £34m by 1995-6. This is £500,000 higher than government projections published a year ago.

The English Tourist Board, which encourages UK residents to take holidays at home and aims to improve facilities, is to see its funding fall from £13.9m in 1993-4 to £10m by 1995-6. The 1995-6 figure is £1m higher than previous government plans.

● Post-budget questions raised over local government finance ● Government outlines plans to rein in welfare expenditure

Clarke's public spending squeeze 'tougher' than Thatcher's

By Martin Wolf

Mr Kenneth Clarke, the chancellor of the exchequer, is proposing a public-spending squeeze far tougher than anything achieved in the 1980s, Mr Andrew Dilnot, director of the Institute for Fiscal Studies, said yesterday.

Questions must be raised, said Mr Dilnot, about the feasibility and desirability of these plans.

One consequence, under plausible assumptions about local authority spending, is that council tax (local government) bills might have to rise by 15 per cent.

The government plans to increase the real level of the non-cyclical elements in public spending, contained in the "new control total" by a cumulative amount of only 3.8 per cent between 1992-93 and 1998-99.

By contrast, between 1980-81 and 1986-87, when Baroness Thatcher was prime minister, comparable spending rose by 12.5 per cent in real terms.

The government also plans to reduce real non-cyclical spending by 1.3 per cent between this year and next, before it starts to rise once more in line with former chancellor Mr Norman Lamont's plans. Mr Dilnot said it was far from obvious that such a cut was the best way to squeeze greater efficiency out of the public sector.

Local authority spending could lead to political difficulties soon. Total central government support for local authorities is set to decline by 2.4 per cent in real terms between 1993-94 and 1994-95.

Mr Michael Ridge of the IFS noted that the revenue from the uniform business rate was set to decline from £11.6bn in 1993-94 to £10.7bn in 1994-95, an 11 per cent fall in real terms.

Mr Dilnot was particularly critical of the government's failure to set priorities. He said too much emphasis was placed on control of public-sector running costs, mainly pay, which is to be fixed in nominal terms for three years, implying a real fall of almost 10 per cent.

Furthermore, government plans implied that the shares of national income being spent on health and education would fall even though people would want to spend a higher share of their growing incomes on them.

● Mr Peter Lilley, the social security secretary, yesterday outlined the government's plans to rein in the growing cost of welfare spending by reforming the structure of the benefit system.

Mr Lilley told the House of Commons during the budget debate how he plans to reform the distribution of a range of state subsidies, including invalidity benefit, housing benefit and support for the unemployed.

The reforms were, he said, intended to "strengthen our welfare state, to adapt it to modern needs, and to make it affordable into the next century. The social security system must not outstrip the nation's ability to pay for it."

Shadow toll plan to get private investment in roads

By Roland Rudd and Andrew Taylor

The government is proposing to pay "shadow tolls" to private investors prepared to finance the widening of the M25 around London, Britain's busiest motorway.

Investors would be repaid out of public sector funds according to the number of cars using the road. This would be instead of charging motorists directly. Previously ministers have been opposed to employing "shadow tolls" because they felt that insufficient risk was being taken by the private sector.

The change in policy was announced by Mr Kenneth Clarke, the chancellor, in his budget speech. The M25 would be the first road to be financed through shadow tolls if the plan proceeds.

The Transport Department intends to hold "early discussions with the construction industry and others to identify appropriate schemes." The first contracts could be awarded within 18 months.

Longer term the government intends to install an electronic system for charging motorists for using motorways but the technology for this is not yet available.

The Treasury dropped its opposition to shadow tolls in return for the Transport Department accepting such a system of electronic charging.

There was also concern about how to increase the capacity of an increasingly congested motorway network when public sector spending on trunk roads was being reduced.

Spending on the national road network is planned to fall from £2.09bn in this financial year to £1.96bn in 1995-96.

Companies interested in taking part in shadow tolls will be asked to bid for the tender to widen a particular motorway. The company which asks for the smallest payment from the government for the traffic using its lanes would normally be given the contract.

Construction companies which have been lobbying government to accept shadow tolling yesterday welcomed the change of heart but said they would need to see the small print of the plan before acclaiming it as a breakthrough.

Mr Joe Dwyer, chief executive of Wimpey said: "We do not yet know the extent of the Transport Department's initiative but as long as projects are brought forward that are commercially feasible – with an acceptable sharing of risk and reward – we would be interested in participating."

Heir to Thatcher's mantle takes his budget bow

Philip Stephens on what the budget did for the leadership prospects of Tory rightwinger Michael Portillo

Mr Kenneth Clarke got the plaudits on the day. But among the Conservative rank-and-file at Westminster Mr Michael Portillo will take much of the political credit for the Budget.

In theory, as chief secretary to the Treasury and the chancellor of the exchequer's number two, Mr Portillo is the most junior member of the cabinet.

He is just 40 years old. He is one of the three rightwing cabinet "bastards" castigated by Mr John Major in one of the prime minister's more intemperate moments during the crisis over the Maastricht treaty on European union.

But he is also the heir to the mantle of Baroness Thatcher. A true believer and self-confessed conviction politician, he is seen by the Tory right as the natural candidate for the party leadership.

So Mr Clarke's decision to balance another round of tax increases with unexpectedly large reductions in public spending will do nothing to dim Mr Portillo's rising star.

A politician committed to reducing progressively the share of the nation's income taken by the state, he got as much as any on the Tory right could have hoped in terms of cuts in spending targets for the next three years.

The chief secretary cannot claim it was all his own work. Under the new system for sharing out the spending cake the final decisions on each departmental budget are taken by a cabinet committee, the so-called EDX.

Nor were the additional cuts the result of a pre-planned operation to sweeten the pill for the Tory right of another round of tax increases. When EDX first started serious negotiations in September it aimed to meet the Treasury's original, higher, spending targets.

It was only when savings started to come along faster than expected that the decision was made to take a political trick by lowering those targets.

There was also sleight of hand. A close look at the figures suggests that a significant chunk of the savings will come from a fortuitous drop in the government's contributions to Brussels. The projected public-sector pay freeze on which all the figures are predicated remains an heroic assumption.

But Mr Portillo was the chief prosecutor, attacking every bid for extra cash from the ministers who run the big Whitehall spending empires.

He was the driving force in the often acrimonious negotiations between the Treasury and Whitehall departments which led to what promises to be the toughest squeeze since the Conservatives took office in 1979.

He has also been shaping the parallel long-term spending reviews which are challenging many of the basic assumptions which have underpinned the welfare state.

Mr Clarke may insist that his commitment to preserve the welfare system is unshakeable. But the chancellor has done nothing to prevent Mr Portillo appearing almost weekly on the nation's television screens questioning the long-term future of some of its principal building blocks. Even the state pension can no longer be regarded as inviolate.

Sometimes in the latest round of negotiations the chief secretary went too far. He wanted the government to break the pledge in its general election manifesto of 1992 to maintain the real value of child benefit. Perhaps he forgot for a moment that Mr John Major had personally insisted on that commitment being made to the voters.

But such setbacks have hardly dented Mr Portillo's most significant political success over the past few months. He demanded and got large-scale reductions in the budgets for defence, local authorities, housing and transport.

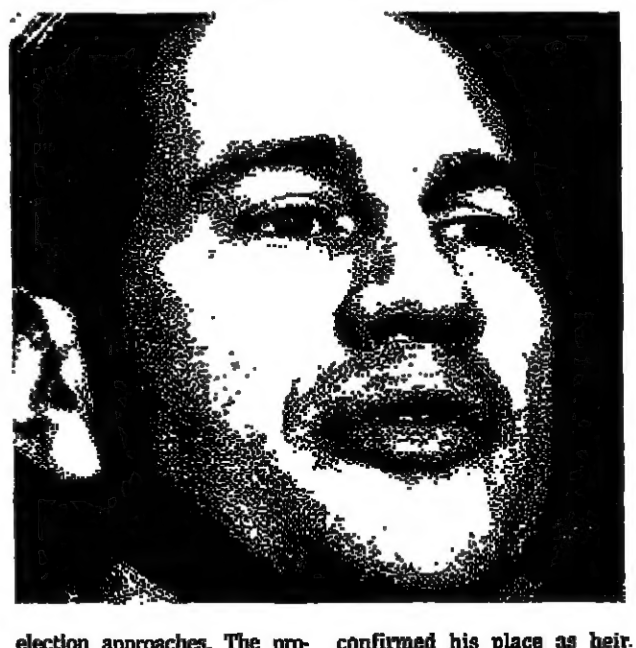
More importantly, he managed to open up a debate which has posed fundamental questions about the respective roles and responsibilities of the state and the individual.

Politics will probably dictate that Mr Major's government retreats from some of the harsher conclusions of its welfare-state review.

Mr Portillo has the Tory right on his side but the mood will shift once the economy strengthens and the general election approaches. The proposed cuts in invalidity and unemployment benefit already threaten a dangerous political battle.

But Mr Portillo is there for the long haul. Mr Clarke has confirmed his place as heir apparent in the event that Mr Major were to fall by the political wayside.

But henceforth it is the chancellor who will be looking over his shoulder.



Tax changes help companies with UK HQs

By Maggie Urry and Tony Allen

Proposals for international headquarter companies in the budget will be a major benefit to groups that have wished to establish a European holding company in the UK, but were deterred, as so many have been, by the UK rules on advance corporation tax (ACT).

The chancellor of the exchequer announced that he is pressing ahead with the foreign income dividend scheme (FIDs) outlined in the March Budget, designed to help companies save surplus ACT.

The scheme has been slightly loosened with regard to international headquarter companies, in an effort to increase the attractiveness of the UK as a base for companies.

These will not have to pay ACT on dividends at all, if they have no more than 20 shareholders, and at least 80 per cent of the shares are held outside the UK.

The new FID scheme will take effect for dividends paid on or after July 1, 1994. Companies, except international headquarter companies, pay ACT on their dividends, and later offset it against their mainstream corporation tax bill.

But if their tax liability is insufficient to offset the ACT paid, the surplus ACT remains in the hands of the exchequer.

The FID scheme will help companies which earn a high proportion of profits overseas, which do not create a large enough UK corporation tax liability.

Under the scheme, companies can opt to pay a FID out of foreign source profits. Originally companies were required to match the dividend in an accounting period to the foreign profit in the same or immediately succeeding accounting period. That has now been changed to include the current and previous year, and, if those provide insufficient foreign profits, subsequent years.

The chancellor also announced an amendment to the tax treatment of Controlled Foreign Companies that will reduce the opportunities for tax planning. Non-trading CFCs are able to avoid a CFC charge if they meet the acceptable distribution test.

This has previously required the company to distribute 90% of its accounting profits (less capital gains). However, the CFC charge is based on profits as adjusted for tax purposes.

Companies were able to exploit the differences between accounting and taxable profits to reduce the impact of the CFC rules.

It is proposed that for accounting periods of a CFC that end on or after 30 November, the acceptable distribution test will be based on taxable profits, so eliminating the opportunity for planning. The Inland Revenue estimate that the measure will yield an additional £50m in tax.

The chancellor also said that for accounting periods beginning on or after budget day, where a company is treated as non-resident for treaty purposes, it will also be treated as non-resident for UK purposes.

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Cutting down on the credits

Zapping – switching between different television channels by viewers – is the TV advertiser's nightmare, particularly when it happens during or just before a commercial break.

Anything which induces a viewer to opt out of expensively purchased airtime is therefore of interest to those who have the job of deciding where advertisements should be placed.

The latest viewer research, conducted by the ITV Network Centre for the independent television companies in the UK, shows that surprisingly few viewers switch over during the break itself; the main culprit seems to be the credits at the end of programmes.

The study indicates that by the time the credits reach best boy or chief gaffer, viewers are highly likely to have reached for the remote control, zapped and then missed the ensuing ads.

Only too aware of the increasing competition from cable and satellite and the need to keep advertisers sweet, the ITV companies have immediately responded to the research by announcing a reduction in the length of credits.

The aim now will be to cut credits to 20 seconds at the end of a programme which lasts an hour or less – ITV companies say that many programmes exceed the current unofficial guideline of 30 seconds.

The research also reveals that breaks of five minutes or more lose viewers.

The study concludes: "The findings are unequivocal – if ITV is to maximise the audience to commercial breaks, as many breaks as possible should be less than five minutes in duration." More frequent, but shorter breaks, therefore, seem on the cards.

Longer term, the threat for advertisers is that viewers decide not only to zap, but to edit out the breaks altogether by using the video-recorder technology that already exists to eliminate the breaks.

In this way they order what they want to watch, rather than waiting for it to be served up.

Diane Summers

Jamie Han

Filling up: The Mobil-Argos Premier Points scheme gave an initial boost to sales but competitors copied the idea rapidly

Diane Summers on wooing and keeping customers

Rewards for the loyal shopper

Boots the Chemists was this week putting a brave face on what must be judged, at the very least, a public relations embarrassment. Its vouchers-for-sports equipment scheme is not in the same league as Hoover's free flight fiasco of a year ago. But it does highlight some of the dangers inherent in the current rash of customer loyalty schemes, designed to attract and reward regular spenders.

Between September and November Boots issued 36m vouchers to customers – one for every £5 spent at its stores – which could be exchanged by schools for sports equipment. A total of 22,000 schools throughout the UK registered for the scheme and started eyeing equipment in the Boots' catalogue for which they hoped parents would collect tokens.

Unfortunately, the vouchers were worth so little individually that customers threw them away; when the required volume of vouchers failed to get through to schools there was a stream of complaints. Boots has recently announced it would halve the number of vouchers needed for each piece of equipment.

Such a miscalculation is just one of the traps to be avoided by companies tempted to join the customer loyalty industry.

Existing schemes range from Air Miles (run by a British Airways subsidiary), now believed to be collected by one in 10 UK households, to tie-ups between petrol stations and retailers. Premier Points, for example, are collected at Mobil and redeemed at Argos.

One of the largest schemes is yet to come. AT&T Istel, an information technology subsidiary of the US communications group, is currently negotiating with UK retailers to set up in the spring an 8m-member loyalty card programme. The company will manage the scheme on behalf of non-competing toy, grocery, petrol, DIY, electrical and clothing retailers, restaurants and hotels.

Customers can pick up points whenever they use a participating outlet and will be able to redeem them for a range of discounts, goods and services. AT&T Istel will manage the database of card members and participating companies will get shared access to the data, allowing them to mail each other's customers. AT&T Istel plans to spend £8m marketing the scheme in each of the next three years.

Arguably there is little new about customer loyalty programmes – the "dividends" offered by the co-operative society shops, Green Shield stamps and store cards were all antecedents of the current schemes. But industry observers say recent interest is unlikely to abate. The recession has made companies question the cost-effectiveness of traditional mass-marketing techniques, and turn to more focused methods, according to Stephen Taylor, Air Miles' marketing director. In good times, the fact that advertising is not as targeted or as effective as might be desired "doesn't really matter, because you're establishing your brand name", he says.

The economic benefits of keeping existing customers loyal, rather than focusing on the short-term recruitment of new customers, has also received much attention. The longer the "life" of a customer, the more initial recruitment costs will be spread. With an 80 per cent annual retention rate, for example, a customer base will need renewing once every five years; by increasing the retention rate to 90 per cent, the base need only be renewed every 10 years.

"Customer loyalty appears to be the only way to achieve sustainably superior profits," Frederick Reichheld, a director of the consultancy Bain and Company, wrote in the Harvard Business Review earlier this year. One of the examples he used was the life insurance business, where, Reichheld says, "a five percentage point increase in customer retention lowers costs per policy by 18 per cent".

The latest research from Cranfield School of Management, published this week, which looked at shopping patterns in 10 large shopping centres across the UK, found that loyal shoppers spend up to four times more in their first-choice store than those who are "promiscuous" in their shopping habits.

The payoff for keeping customers is clear, but it cannot be assumed that the current craze for the card, token and voucher-based loyalty schemes is necessarily doing the trick.

Says Tim Denison from Cranfield who, together with Simon Knox, carried out the retailing research: "How effective loyalty schemes are is still in question." It is not known, for example, whether customers behave tactically towards the schemes, reaping a few advantages and then moving on to a new offer. Denison points to a lack of monitoring by companies, and accounting practices which fail to highlight which customers are most worth keeping.

Taylor suggests that deferred discount programmes – which offer discounts after points have been accumulated – can "work, ultimately, against the whole notion of a customer loyalty programme" by devaluing the brand.

Schemes such as the Mobil-Argos tie-up may not devalue the brand, adds Taylor, but they can easily be copied. Inflation of the currency, of the type that led, in part, to the eventual demise of Green Shield stamps, may then follow.

Mobil, which says it was first into the market with the plastic "swipe" card, rather than tokens or stamps, confirms Taylor's view.

"It's like shooting at a moving target," says Mobil's spokesman Roger Newstead. Premier Points gave an initial boost to sales, but competitors pinched the idea within a short time and now it is hard to identify to what extent the scheme has increased or maintained those sales, he says. Mobil knows it needs some sort of promotion all the time, otherwise sales drop.

Clearly the danger is that competitors engage in what Taylor describes as a "zero sum game" where everybody will be "spending money on programmes just to keep the playing field level, rather than to have an advantage".

Home, sweet hotel home

The US is going to new lengths to attract tourists, writes **Kate Button**

If you wake up in a hotel where the television news is reported in Japanese, the breakfast menu features miso soup and green tea and your concierge slips the Japan Times under the door, you could be forgiven for thinking that you were in one of Tokyo's finest resorts.

But you are just as likely to be in America. With 19.5m overseas visitors expected to flood into the US this year, hotels are going to new lengths to attract foreign travellers.

"The whole point is to make your guests feel as at home as possible," says Jo-Anne Cavanaugh, international sales director for Marriott Hotels. "If they enjoy their experience with you, they will come back again."

Although many tourists travel abroad to sample alternative cultures, hotel sales managers in the US are finding that by adopting some of the services and customs exercised in other countries, their guests feel less disorientated and return to the same destination time and again.

For this reason Gary Zodrow, executive vice-president of HBR Hotels, based in San Francisco, California, makes special arrangements for foreign visitors, who make up 55 per cent of his clientele.

"If we have French guests, we order softer croissants, special breakfast rolls and jams," says Zodrow. "If we are hosting Germans, we make sure German beer is stocked in the bar."

Other hotels go to greater lengths, particularly for the Japanese. According to the US Travel and Tourism Administration, they are expected to comprise 21 per cent of all overseas visitors to the US in 1993.

For example, many hotel chains now offer Jan (Japan Assistant Network), which provides translation services for business travellers, plus information for holiday makers about local restaurants, shopping facilities and tourist attractions.

Some hotels also subscribe to Scola, a 24-hour international news channel on cable television that tunes into news desks worldwide to cover events directly from source.

Hotel Nikko, in San Francisco, owned by Japan Air Lines, not only offers its Japanese guests news from home and coverage of the Nikkei stock index, but also caters for international conferencing through Photo & Sound, an in-house audio visual company that provides real-time translation of business meetings.

Hotels have also initiated finer modifications for specific foreign visitors.

The Marriott, for example, provides longer length bath robes for Japanese guests. "The Japanese are very modest people, they appreciate a little more coverage," explains Cavanaugh. Meanwhile, the Westin St Francis Hotel researches the status of its guest list prior to check-in and accommodates higher ranking individuals on higher floors than their subordinates – in line with traditional Japanese protocol.

But despite these attempts to draw foreign trade, many leading chains are reporting decreased custom from certain nationalities, including the Japanese.

Alain Ane, assistant general manager at the Hotel Nikko, claims Japanese tourists make up 25 per cent of the hotel's guest list.

But that figure is 10 per cent down on last year – and falling. Partly due to the recession in Japan, Ane believes that declining Japanese patronage is also attributable to recent negative press about the US.

Shootings of German and British tourists in Florida, the slaying of a Japanese student in October last year and the Los Angeles riots following the Rodney King incident, have done a great deal to engender fear and apprehension in travellers to the US.

"It's embarrassing," says Zodrow. "America used to provide such a wonderful and safe environment for travellers. Now we give a third-world impression of safety."

At least those willing to brave the streets of America, for business or pleasure, may rest assured their visit will be home from home.

TECHNOLOGY

The war between re-usable and disposable batteries is getting fiercer, writes **Della Bradshaw**

Charged up for battle

Christmas is coming and the credit card bill is getting fat. Come New Year and the expense will continue with the never-ending demand for batteries to power games computers, remote control racing cars or the latest in walking, talking dolls.

Increasingly advanced technologies and the growing demand for "green" products, however, means that 1994 could be the year when it becomes fashionable to recharge spent batteries rather than consigning them to the dustbin.

Traditionally, rechargeable batteries have commandeered just a fraction of the market, 2 per cent of consumer battery sales in volume terms in 1992. The result is that 12bn batteries every year end up in landfill sites worldwide.

Several products launched this year have not only fuelled consumer interest, but sparked a war of words in the seemingly staid world of the battery maker.

The third largest US battery maker, Rayovac, which owns the Vidor battery company in the UK, has thrown down the gauntlet with Renewal, a re-usable alkaline battery system which will be on sale in the US for Christmas.

Until now only nickel-cadmium batteries have been re-usable – not alkaline batteries, which make up the bulk of the disposable battery market from manufacturers such as Duracell or Ever Ready.

The renewable alkaline batteries can be used at least 25 times, but only the special Rayovac brand can be used in the Renewal charger and they cost about twice as much to buy as disposable or "primary" batteries. The two Renewal chargers costs $15 (£10) and $30.

The Renewal batteries have the advantage over their nickel-cadmium counterparts that they can be charged to 1.5 volts – the same as primary batteries. They are also ready charged on the shop shelves, so desperate parents can slot them into battery-powered toys without waiting hours. And there is no "memory" problem, where a battery will only fully recharge if the battery is completely spent.

Rayovac believes a further advantage is that they lose power gradually, so that consumers are warned that they need to charge the battery as the tape in the personal stereo begins to slur. Nickel-cadmium batteries lose power suddenly.

Manufacturers of rechargeable nickel-cadmium batteries, such as Ever Ready, which is the market leader in the UK, believe their technology is still the best on offer. They hit back at detractors who say that because nickel-cadmium batteries supply a constant 1.2 volts they are unsatisfactory for use in the most power-hungry toys, such as video games machines. Both disposable batteries and rechargeable alkaline ones begin to lose their power as soon as they are used, so it is not long before the power drops below 1.2 volts, they point out.

Each nickel-cadmium battery can be recharged 1,000 times, making them very economical. Japanese electronics specialist Panasonic is so convinced of the future of rechargeable nickel-cadmium batteries in Europe that it has recently launched its first rechargeable product, called Rechargeable Nick.

Two R6 Rechargeable Nick batteries, say Panasonic, will power a personal stereo for three years, provided that the batteries are removed and recharged every night. The alternative is to use 540 disposable batteries.

A more controversial method of recharging batteries was launched in the UK in August when Kleeneze Holdings, which produces the Innovations catalogue found in many of the UK's Sunday newspapers. The company introduced a machine which recharges all the commonly available primary batteries – alkaline or zinc chloride. Only the button types which power watches and cameras cannot be put in the Battery Manager.

Although the Battery Manager was first on to the market, Andy White, product development manager at the Innovations Group, says that there are 40 or 50 international patents outstanding on similar developments.

Most battery chargers work in a similar way, essentially a technology devised in the 1940s. When a battery is used the metal from the electrode is dissolved in the electrolyte and dissipated. To recharge the battery the metal particles are plated back on to the electrode – in the same way as silver plating cutlery.

The variations in the way the machines work centre around the speed and power at which the batteries are recharged and the control mechanisms used to prevent the batteries exploding. The control mechanisms in the latest chargers incorporate microchips to ensure consistency.

Reaction to the Battery Manager from primary battery suppliers was swift. A spokeswoman for Ever Ready says the company is still concerned about the safety of recharging primary batteries which are sealed, so preventing the escape of gases produced in the process. Consumers who re-charge their Ever Ready primary batteries in a Battery Manager automatically invalidate their guarantee if things go wrong, she says.

"Once a year someone in the world claims to have found a way of recharging primary batteries," says a sceptical Peter Galazka, European marketing manager for Duracell. "Innovations is the latest in a long line of them."

Galazka is also concerned that the Innovations product could cause confusion and persuade consumers to recharge primary batteries in machines designed to charge nickel-cadmium batteries. That could easily result in the batteries leaking and in extreme cases, exploding.

Nevertheless, in the four months since its launch, sales of the Battery Manager have been brisk, with 200,000 chargers ordered. Previous to that, by comparison, Ever Ready reckons that only 66,000 nickel cadmium battery chargers in total were sold in the UK.

Innovations has been a victim of its own success, however. Sales of the Battery Manager have been so brisk that Innovations has only been able to ship 70 per cent of the chargers ordered, says White.

Whether the new breed of battery rechargers will dent the ever-growing market for primary batteries is debatable. Galazka believes that consumers will be disappointed with the performance of recharged batteries, in particular about the time each battery lasts between charges.

All the battery and recharger manufacturers acknowledge that the biggest problem is consumer inertia and the "hassle factor" as Galazka puts it. "Actually," says the Ever Ready spokeswoman, "people are just lazy."

Strong feelings over patent dispute

The multimedia industry may soon turn into a legal minefield. **Tom Foremski** and **Louise Kehoe** report

US computer software companies are up in arms over the granting of a basic patent on multimedia databases to Compton's New Media, a small software company best known for its development of an electronic multimedia encyclopedia that is sold on a CD-Rom, similar to an audio compact disc.

Compton's has shocked the industry by announcing that it has been granted a patent that covers any computer-controlled system that searches through a database and retrieves text with images or audio or video information.

The company is seeking royalties amounting to 1 per cent of revenues from sales of multimedia products ranging from personal computer databases to interactive television. It has said that it will reduce or eliminate royalties on the patent to software developers that use Compton's as a distributor.

Many in the software industry are convinced that Compton's claim to have invented a novel process for searching multimedia databases is false. "This patent basically claims that Compton's invented multimedia," says Philip Dodds, executive director of the Interactive Multimedia Association (IMA), a trade association representing more than 260 companies in the rapidly emerging multimedia industry.

Compton's patent covers a search system process that is common and considered non-proprietary, the industry group maintains. Compton's patent now seems certain to be challenged in the courts. Several industry groups including the IMA and San Francisco's Multimedia Developers Group are banding together in an effort to get the patent overturned.

Compton's, however, is determined to assert its patent rights. "We simply want the public to recognise Compton's NewMedia as the pioneer in this industry, promote a standard that can be used by every developer and be compensated for the investments we have made to make multimedia a reality for developers and end users," said Stanley Frank, president and chief executive.

The dispute has raised strong feelings in the software industry because it comes just as multimedia products appear set to break into the mainstream of personal computing. Dozens of software companies have launched CD-Rom titles for home and school use and sales of PCs complete with stereo sound and video capabilities are booming.

The fledgling multimedia industry could soon turn into a legal battleground says G. Gervaise Davis III, a partner in Davis & Schroeder, a California-based law firm specialising in intellectual property issues. Thousands of multimedia patent applications have been filed in the past few years, he notes.

There are as many as 15,000 software patent applications waiting for approval

However, the row over Compton's multimedia patent is only the latest example of a much broader problem with software patents. Critics charge that software patents covering basic ideas are stifling the creativity of the small companies that have led innovation in the software industry by limiting access to fundamental ideas.

Until seven years ago, the US Patent Office did not grant patents on software. Since then, more than 10,000 software patents have been granted, but there are as many as 15,000 software patent applications waiting for approval.

Yet the US Patent Office is ill-equipped to examine properly these claims, industry critics charge. The agency lacks the expertise or resources to fully research "prior art" that can invalidate patent applications. As a result, several sweeping patents have been granted for basic computer processes that are not novel, the IMA complains.

A group of US firms including Apple Computer, IBM, Digital Equipment, Lotus Development and Microsoft have formed the Software Patent Institute, which is building a database of software inventions for the Patent Office's use in an effort to avert software patent disputes.

But Compton's patent issue is spurring industry pressure for broader reforms. The IMA has called for the formation of an industry commission to review pending patents and provide the Patent Office with the expertise it currently lacks.

Some are also calling for changes in US patent laws to give patent challengers an opportunity to make their case before a patent is granted. Currently, in the US, patent filings are secret until approval is granted. This means that anyone wishing to dispute a patent must either challenge the patent in the courts or ask the Patent Office to re-examine the patent.

Both are lengthy and expensive procedures. In the meantime, the challenger must pay royalties to the patent holder or run the risk of being liable for triple damages for willfully infringing the patent.

Such disputes are nothing new in other sectors of the high-technology industry such as semiconductors and computer hardware, where patents have long been recognised as a primary means of protecting intellectual property rights that enable innovators to recoup their investments in technology development.

Yet in the software industry, patent rights are a relatively new phenomenon and one that few developers have previously encountered. Although many may see the dispute over Compton's patent as a threat to innovation, it may well prove to be a catalyst for broader understanding of intellectual property rights in the software industry and improvements in the patent process that will eventually benefit all software developers.

PEOPLE

Sir Bob Reid to chair London Electricity

Sir Bob Reid, full-time chairman of British Rail since 1990, has been appointed a non-executive director of London Electricity, and is scheduled to take over as part-time chairman of the company on April 1, when the incumbent, John Wilson, retires.

A BR spokesman said that the new appointment did not signify the likelihood of Sir Bob stepping down from his role at BR, where he is on a five-year contract. "He anticipates that his post with London Electricity, even when he becomes chairman, will not take up more than two days a week."

Nor is there any indication that Sir Bob's current part-time BR job, which, in his words, was to "make sure the trains run on time", will be scaled back, even though the Railways Bill, coincidentally coming into effect on April 1, will leave him without any train timetables to concentrate upon.

Sir Bob has in the past clashed with government ministers over rail privatisation, and his role at BR has to some extent been undermined by the appointment of another former oil executive, Bob Horton, former chairman of BP, as head of Railtrack, the newly-formed body which will initially take charge of railway stations, though the two are understood to have cordial relations.

From April 1, Sir Bob's role at BR, according to some commentators, will be merely to supervise the dismantling of the rail network as it is known today; though he gives every indication of seeing his BR contract through to what may ultimately be a rather bitter end.

But Sir Bob is pleased to join London Electricity not least because its cash position is – unlike BR's – very healthy.

Aged 59, he joined Shell in 1956 and spent more than 30 years there, eventually becoming chairman and chief executive in April 1985 until September 1990. He is also a director of the Bank of Scotland, and earlier this year was installed as the first chancellor of the Robert Gordon University, Aberdeen.

Non-executive directors

Barrie Stephens (above), who has built Siebe into Britain's biggest engineering company in the space of 20 years, has picked up his first non-executive directorship since he announced that he was splitting his role as chairman and chief executive of Siebe. An industrial engineer who has spent his whole life in the engineering industry on both sides of the Atlantic, he has been appointed a non-executive director of the troubled Simon Engineering.

The appointment is a coup for Simon which, despite its illustrious history, is a fraction of Siebe's size and has been beset by management upheavals and financial problems. Sir Richard Lloyd, chairman of Vickers, sits on the boards of Siebe and Simon and is understood to have helped recruit Stephens. The latter will be 66 next month and while he will remain a non-executive chairman of Siebe, is handing over the chief executive's job to Allen Yurko.

Meanwhile, Alan Jarvis, who was replaced as Simon Engineering's finance director last October, has resigned from the board.

■ **Derek Roberts**, provost of University College, London, and a former joint md (technical) of GEC, at FISONS.

■ **Anthony Hamilton**, joint md and head of corporate finance at Fox-Pitt, Kelton, at AXA EQUITY & LAW.

■ **Peter Wood**, who was chairman of the Heart of England Building Society at the time of its merger, at CHELTENHAM & GLOUCESTER BUILDING SOCIETY.

■ **Peter Ross** has resigned from TINSLEY ROBOR.

■ **Mark Denby**, underwriter for marine syndicate 609, at ASHLEY PALMER & HATHAWAY.

■ **Miller McLean**, director of legal and regulatory affairs at The Royal Bank of Scotland, as vice-chairman of BANCO DE COMERCIO E INDUSTRIA following the retirement of Charles Winter, vice-chairman of both the Royal Bank and BCI.

■ **Flemming Heilmann**, chairman and ceo of Brockway Standard of Atlanta and already on the board of Porter Chadburn Inc, at PORTER CHADBURN in the UK.

■ **Murray Stuart**, vice-chairman of Hill Samuel Bank, at CLERICAL, MEDICAL AND GENERAL Life Assurance Society. Robert Walther, investment director of Clerical Medical Investment Group, as chairman of Clerical Medical International's Isle of Man companies on the retirement of Andrew O'Leary.

Smith benefits from split role at Argyll

Argyll, the food retailing group comprising Safeway, Presto and Lo-Cost, is splitting the roles of chairman and chief executive, currently filled by Sir Alistair Grant, and promoting Colin Smith, finance director since 1989, to the chief executive's position.

Sir Alistair, who became chief executive in 1986 and added the chairman's role in 1988, will continue as full-time executive chairman. David Webster continues as deputy chairman with responsibility for corporate finance and development and strategic planning.

Argyll says Sir Alistair, who is nearly 57, was keen to "play in" a new executive before he reached the retirement age of 60, and bring in someone else to participate in trading and investment decisions that may have an impact beyond that date.

"We will split the job as you would expect," said Smith (above right) yesterday. "It will be my responsibility to conduct operations, while Alistair will be executive chairman. He is the boss at the end of the day."

He added that "everybody's style is different. Mine will be different from Alistair's, who had a background in marketing, while mine was on the finance side. My style will probably be different from what it was when I was finance director. I will need to get much more closely involved with the operations."

Smith, 46, has a degree in commerce from Liverpool University, and began his career with Arthur Andersen in 1969. From 1976 he spent three years on consultancy assignments, and joined Argyll Foods as financial controller of its meat division in 1979.

He was rapidly promoted, being appointed finance director of Argyll Stores division in 1983 and to the board of the Argyll Group in 1984.

■ **Ken Pepper** has been promoted to become md of international operations for ISS Europe.

■ **David Hingston**, formerly director of strategic planning, has been appointed operations director of BICC Cables.

■ **Peter Giamalva**, formerly vice-president of sales worldwide based in Chicago, has been appointed vice-president and md for Europe, Middle East and Africa of BUDGET RENT A CAR.

ARTS

Theatre

'Derby Day' winner

Here is a real long shot, but in the end a clear winner. The Yorkshire Theatre Company's *Derby Day* by Brian B Thompson is all that we have learned not to expect from the contemporary fringe theatre in London. True, like the principal horse involved, it has a slowish start. After that, it has all the traditional virtues of laughter, suspense, a touch of sentimentality and even a social conscience.

One of the reasons for admiring it is that it is so unexpected. *Derby Day* comes from no recognisable stable. It contains a lot of blunt Yorkshire humour, then moves to Newmarket where the way of life is quite different, but still essentially male-dominated.

The adopted daughter of a widowed trade unionist has moved south to become a jockey. I shall not reveal whether or not she wins the Derby; for that is part of the suspense, and anyway the result depends on a stewards' inquiry. Yet even from that brief outline you should see that there are serious subjects underlying the comedy.

Derby Day combines old-fashioned drama with new-fashioned acting and staging. There is a cast of four, and no props except the odd box and fence. The actors play the horses as well as the jockeys, trainers, owners, BBC commentators and other hangers-on. They do the horses by emitting a series of grunts and moving forwards and backwards as each race takes its course.

A touch of fairy tale enters when the Kentucky horse Lone Dancer (one of several roles by Christopher Halliday) turns out to be able to talk, but mainly to the girl jockey.

The horses can, of course, talk to each other, as they do before the start of the big race. One of them is called "Theboydonegood". "No horse with a cheap and nasty name," says a horse named Bunbury, "has ever won the Derby." Still, Theboydonegood makes the early running.

Thompson throws in pots of extraneous jokes. "You didn't catch Clem Attlee in the bookies," says the trade unionist. The whole piece is extraordinarily good-natured. In the one scene of violence where the male jockeys turn on their girl rival, the punching and kicking is mimed rather than acted out. Much London theatre could learn from that restraint.

It is tempting to give all the acting laurels to the diminutive Rosalind Paul as the heroine, and certainly this is a magnificent performance. Yet she also has the most sympathetic part. The boys do pretty good as well: not only Halliday, but Bruce Byron and Andrew McIlwee in various other parts. This is an outstanding group directed by Toby Swift.

Derby Day runs at the Cockpit until December 18. There must be some other London theatre with a similar open stage capable of picking it up.

Malcolm Rutherford

Cockpit Theatre, London NW8, (071) 402 5081

Cinema/Stephen Amidon

Minus heart and guts

The Hawk is a British screen thriller that strives so hard for efficiency that it winds up jettisoning its characters for a fast, smooth ride. Set in a quiet Manchester suburb, it tells the story of a frustrated housewife (Helen Mirren) who gradually comes to suspect that her straying husband may in fact be The Hawk, a serial killer who has been dispatching women very similar to herself with alarming alacrity. As the clues begin to accumulate, she tries to make her fears public, only to have her own past history of mental illness cast doubt on her reliability as a witness. As is usually the case in these sorts of stories, she is left on her own to investigate whether or not her suspicions are correct.

The best thing about this film is that everyone seems to know they are working to a tried and tested formula. It is a largely seamless production, unpretentious and fast-moving, only coming unglued at the end with a gratuitous sprint to the demolition lot in pursuit of that vital clue. David Hayman's direction is crisp and Mirren's performance is as subtly regal as ever.

The problems lie in Peter Ransley's script. He seems so intent on its mechanics that he neglects the ghost in the machine – fully rounded characters. To be sure, clues accumulate, red herrings wriggle by, a big climax is achieved. But where is the motivation, the psychological nuance? The killer's mind remains an enigma even after his identity is revealed, while Mirren's past mental illness is shown to be post-natal depression, hardly likely to cast her suspicions into doubt now that her youngest child is seven or eight. And minor characters, especially the relatives who harbour the killer, are two-dimensional villains.

These are maddening shortcomings, since they could have been rectified in the time it takes to pan along a grimy Manchester street. In the end, the film remains a distinctly cool, grimly functional affair. Any satisfaction to be had by watching the did-he-or-didn't-he plot unfold remains north of the neck, leaving the heart and the guts untouched.

THE HAWK (15)
David Hayman

BOUND AND GAGGED: A LOVE STORY (18)
Daniel Appleby

LAST YEAR IN MARIENBAD (U)
Alan Resnais

TALE OF THE FOX
Wladyslaw Starewicz

The best thing about *Bound and Gagged: A Love Story* is its title, which promises the sort of kinkiness and black humour in the work of Almodovar or David Lynch. Unfortunately, the film proves to be neither sexy nor funny. In fact, it is hard to figure out exactly what were the thematic intentions behind this stylised, off-key road movie to nowhere.

The plot is not without a certain skewered potential – rebellious bisexual Elizabeth (Elizabeth Saltarrelli) kidnaps her lover Leslie (Ginger Lynn Allen) when the latter proves unable to make the break from her abusive husband (Chris Mulkey). Accompanied by Cliff (Chris Denton), an inefficiently suicidal nerd, they set off across the American heartland with the wronged and wrongful husband in pursuit. Their destination is the ranch of a veteran de-programmer (Karen Black), who, Elizabeth hopes, will be able to "cure" Leslie of her dependency on her husband in particular and men in general.

Despite the plot's potential wackiness, writer/director Daniel Appleby proves incapable of finding either the right comic or erotic pitch to make this strange story work. Since little attempt is made to establish an emotional bond between viewer and characters, much of the film is downright unpleasant. Appleby spends so much time trying to make matters stylishly hip that they wind up not being much of anything at all. The humor is crass, relying on kicks to the groin and smashed heads, while there is a decidedly unfunny sub-plot involving wimpy Chris's estranged wife and her Native American lover. A bunch of guff about dependency and personal freedom is wheeled out in the final frame in a belated attempt to render meaning, but by then most viewers will have abandoned this road trip for the first bus back home.

When *Last Year in Marienbad* was first released thirty-two years ago, it proved the sort of movie that could divide audiences as effectively as a slab of falling masonry. Some hailed Alain Resnais's second film as a masterpiece which helped liberate cinema from the shackles of narrative dogma, while many others dismissed it as self-indulgent tripe. What is interesting in viewing it now is that inhabits neither of these extremes, standing instead as a necessary if not exactly enduring stage in the history of French cinema, a 90-minute purgation of its storied past in favour of the New Wave.

For those who have not experienced it, the storyline is both maddeningly simple and inscrutably complex. Set in a German castle which serves as a retreat for the wealthy, Resnais's elegant and beautifully-shot film choreographs the movements of two would-be lovers as they try to piece together their past, present and future, all the while menaced by the woman's jealous husband. But any such summation is ultimately reductive in a film where locations can change in the middle of a conversation, where time is irrevocably out of joint, and where textual repetition takes the place of linear exposition.

Viewed in itself, the film is now a distant enigma, an ageing riddle there seems little reason to solve. But when placed in the context of cinema history, it begins to make sense. Resnais and writer Alain Robbe-Grillet were not trying to tell a story or even create a genre, but were rather taking a hammer to the work of the masters who had preceded them. By setting the film in a retreat for the upper classes, Resnais deliberately evoked the work of Ophuls and Renoir, only to tear it into glorious shreds. It is as a piece of sumptuous vandalism, and not in establishing any aesthetic criteria for subsequent filmmakers, that *Last Year in Marienbad* proves revolutionary. Thus only those wanting to understand the evolution of French cinema who will feel gratified by this beautiful relic's re-release.

A French relic with more accessible charms is Wladyslaw Starewicz's *Tale of the Fox*, a pioneering 1931 masterpiece of animation. It took the director ten years to prepare and 18 months to shoot this 60-minute jewel – and it shows. From its small, exquisite puppets to its sophisticated sense of wry humor, this fairy tale oozes care, rivalling anything done in animation since. It reminds you that all the digital technology and computer wizardry in the world cannot beat a solitary injection of passion and humanity.

Thriller which tries too hard: Helen Mirren and Owen Teale in 'The Hawk'

Theatre

'Celestina', the bygone blockbuster

"Arguably Europe's first blockbuster" is how the advance blurb describes Fernando de Rojas's *La Celestina* (1499, with over 60 reprints before 1600). The story it tells is all about love – in particular, carnal love overwhelming courtly love. Its title character is a bawd who makes profit by using sorcery. She helps one man, Calisto, turn his unreciprocated courtly love for Melibea into reciprocated passion.

The tale is satirical, and it ends bitterly. Passion leads to date rape, while the financial greed involved in Celestina's schemes leads to her death and that of her envious assistants. Calisto's heartless enjoyment of Melibea backfires on him, and leads to his accidental death; whereupon Melibea, still ardent for him but still sore that he ever deflowered her, takes her own life. Love! Love the sweet poison, love the dear wound – "Love, thou has the power to kill thy subjects."

I adore all this kind of stuff. But, never fear, Jilly Cooper and Co: this ex-blockbuster is not likely to knock you off the best-seller lists these days. Certainly not in this Actors Touring Company version, translated by James Mabbe and co-adapted by Max Hafler and Nick Philippou (Philippou directs.) As performed here, the story simply becomes mildly camp. The noble characters speak in "thees" and "thous", whereas the vulgar people's talk is decidedly modern ("I'd rather neck with a leper"). This alternation becomes far-fetched, and the switch between "thou" and "you" occurs once in mid-sentence: "Thou makest me believe you."

Each of the six actors has to represent at least two characters. The role-swapping is fun, and the performance is energetic, but nothing much stirs beneath the lively surface. Each character is simply an obvious "type". As the play proceeded, I grew interested by Mia Soteriou's vivid but unexaggerated account of two opposite roles, the virtuous maid Lucretia and Celestina's scheming daughter Elicia; and Lucy Whybrow as a shrill, plaintive Melibea and the gutsy good-time girl Areusa. But Ann Firbank plays Celestina as just an obvious crone. Sebastian Harcombe overdoes all Calisto's external features – glassy smile, pretty gestures, tremulous declamation – while never exposing any real erotic drive.

The more serious the tale grows, the more enjoyable the performance becomes. You want to know what will happen next. But love? It was never in evidence for a moment.

Alastair Macaulay

At the Lyric Studio, Hammersmith, W.6, 081-741-2311, until December 11

A cradle for new music

Andrew Clark visits Vienna, home of Europe's largest contemporary music festival

It may no longer be a hot-bed of the avant-garde, but Vienna is still home to all that is modern and contemporary in music. That much is confirmed by Wien Modern, founded by Claudio Abbado in 1988 and now the biggest, most popular contemporary music festival in Europe. It is an extraordinary achievement. The festival virtually takes over Vienna's concert life for four weeks, drawing full houses night after night. This year's event was more wide-ranging than the previous five, and no less palatable.

Vienna has advantages. As well as being a city of musical entertainment, it has always been a cradle for new music, from Schubert to Schoenberg, and composers still form an important part of the local music establishment. It has two ensembles whose *raison d'etre* is to interpret modern music: the excellent Klangforum Wien – Vienna's answer to the London Sinfonietta – and the Austrian Radio Symphony Orchestra. And the city government backs Wien Modern to the tune of Sch10m (£625,000).

Such foundations do not guarantee the viability of a large-scale festival; the key is seems to be the way Wien Modern sells itself. It builds its programme around four established composers, but leaves room for subsidiary themes. It encourages a youthful audience by spotlighting a younger Austrian composer and offers the complete set of 40 concerts for the all-in price of Sch650 (£40). It does not restrict itself to the new or avant-garde, but sets these in the context of a postwar retrospective. And it unites the city's two main concert promoters – the Musikverein and the Konzerthaus. No wonder Wien Modern is a success.

This year, there were mumblings that four weeks were too long, that some of the visiting ensembles were of indifferent quality. A more sustainable complaint was that Abbado, as artistic director, should be less of a figurehead and more of a participant. He conducted just one short work; more is promised next year.

My own impressions left such quibbles in the shade. The four main composers were Bernd Alois Zimmermann, Toru Takemitsu, Krzysztof Penderecki and Erich Urbanner. Zimmermann died a generation ago, but the concerts I heard underlined how advanced his music sounds even today. Takemitsu is virtually unknown in central Europe, so this was a chance for Vienna to catch up. The 60th birthday tribute to Penderecki suggested there may not be such a marked difference between his early and later output as previously thought. The inclusion of Urbanner, born in 1936 and unknown outside Austria, seemed more of a sop to local interests.

Zimmermann at his most dynamic, sinewy and down-to-earth was represented by the early Violin Concerto (1949), played with tremendous spirit by Ernst Kovacic. *Antiphonen* for solo viola and 25 instrumentalists (1961) was at once more absorbing and perplexing, its oblique collage of sound experiments and multilingual texts challenging the imagination but offering little to the heart. It formed the centrepiece of a Klangforum concert conducted by Hans Zender, whose own *Furin No Kyo* ("Songs about wind and bells") – beautifully vocalised by Julie Moffat – bore the stamp of a Zimmermann clone. Zender should stick to conducting, at which he is expert.

Of the younger generation of Austrian composers, the spotlight fell on Georg Haas, whose microtonal *Descendiendo* was a delicate filter of isolated sounds and sudden, massive climaxes, confidently scored for large orchestra. It is an unmistakable product of the Viennese school, currently dominated by Friedrich Cerha – whose own *Langegger Nachtmusik III* (1991), conducted by Cerha himself, gobbled up all the resources that the Austrian Radio Symphony Orchestra could muster.

Cerha will never be able to free himself from the language of Berg, but *Langegger* was more uninhibited than anything else of his I have heard. It incorporates some spicy African and Arabic influences, and supplements the main orchestra with an instrumental group in the body of the auditorium – as echo, counterpoint, conversational partner and rival band. Probing the relationship between space and sound is nothing new: from Gabrieli to *Gruppen*, there are plenty of ground-breaking precedents. But Cerha has offered his own valid contribution.

The Docklands Sinfonietta brought Harrison Birtwistle's *Three Movements with Fanfares* (1965) – a fount of brilliant, tightly-compressed ideas – and Jonathan Harvey's Easter Orisons (1969), a unbroken skein of sound which takes on a momentum of its own and rewards patient listening. In this context, it was hard to take Takemitsu seriously. *Nostalghia*, a tribute to the late Andrei Tarkovsky, mirrors the slow, funereal world of his film. *Tree Line* sounded so familiar – so Debussyan – that it is a wonder no-one has accused Takemitsu of plagiarism.

Sian Edwards conducted performances of commitment and refinement. Her orchestra's visit was part of a British mini-invasion of Vienna over the past fortnight. Independent of Wien Modern, the Northern Sinfonia gave two guest programmes featuring music by John Casken and Nicholas Maw. A new production of Kenneth MacMillan's *Manon* has just given the Staatsoper ballet its biggest success of recent seasons. And this weekend Simon Rattle makes his debut with the Vienna Philharmonic.

INTERNATIONAL ARTS GUIDE

ATHENS

Megaron Sun, Mon, Tues: Gerd Albrecht conducts Czech Philharmonic Orchestra in works by Beethoven, Brahms, Dvorak and Mahler, with mezzo soloist Brigitte Fassbaender (01-728 2333/01-722 5511)

BARCELONA

Gran Teatre del Liceu Sat: Richard Bonynge conducts first of eight performances of Gian-Carlo del Monaco's 1988 Zurich production of Donizetti's La fille du régiment, with Edita Gruberova and Deon van der Walt (tel 412 3532 fax 412 1198)

BOLOGNA

Teatro Communale Tonight, Sun afternoon, next Tues (also Dec 9, 12, 15): Riccardo Chailly conducts Lluis Pasqual's production of Puccini's Trittico, with a cast led by Paolo Gavanelli, Mary Jane Johnson, Luis Lima, Adriana Morelli and Leo Nucci. Dec 10, 11: Chailly conducts Mahler's Third Symphony (No telephone bookings accepted. For information, call 051-529999)

GENOA

Teatro Carlo Felice The season opens next Thurs with the Strehler production of Don Giovanni, starring Ferruccio Furlanetto, Cecilia Gasdia and Laurence Dale. Repeated with changing casts on Dec 11, 12, 15, 17, 18, 19 and 21 (010-589329)

LONDON

THEATRE

● Cabaret: a new production of one of the great modern musicals, directed by Sam Mendes. Jane Horrocks plays Sally Bowles, with Alan Cummings as Emcee at the Kit Kat Club. Previews from tonight, opens next Thurs (Donmar Warehouse 071-867 1150)

● The School for Wives: Ian McDiarmid plays Arnolphe, Moliere's most celebrated role, in this rare London revival of one of the finest, funniest and most affecting French plays. Previews start tonight, Press night next Wed (Almeida 071-359 4404)

● Mother Courage and Her Children: Anthony Clark's touring production of Brecht's play comes to the Cottesloe. Previews from tomorrow, opens on Mon (National 071-928 2252)

● The Wind in the Willows: Alan Bennett's adaptation of Kenneth Grahame's magical animal tale returns for a Christmas run in the Olivier, in Nicholas Hytner's award-winning production. In repertory with The Absence of War, David Hare's new play about the Labour Party, starring John Thaw (National 071-928 2252)

● Relative Values: Tim Luscombe's admired Chichester festival production of Noel Coward's comedy, with Susan Hampshire and Alison Fiske (Savoy 071-836 8888)

OPERA/DANCE

Covent Garden The Royal Ballet has a final performance tonight of a mixed bill including MacMillan's Different Drummer and Forsythe's Herman Schmerman. Repertory for the rest of the month consists of a double bill pairing Balanchine's Ballet Imperial and Ashton's Tales of Beatrix Potter, and Peter Wright's production of The Nutcracker. The Royal Opera's latest revival of Tosca opens on Sat with Anna Tomowa-Sintow, Alberto Cupido and Sergei Leiferkus, conducted by Edward Downes (till Dec 18). Repertory also includes Die Zauberflöte (071-240 1066)

Coliseum ENO repertory this month consists of Tim Albery's new production of Lohengrin conducted by Mark Elder, plus revivals of Le nozze di Figaro and Die Fledermaus (071-836 3161)

Royal Albert Hall Valery Gergiev conducts a concert performance of Tchaikovsky's Iolanta on Mon, with soloists from the Kirov Opera, plus Royal Philharmonic Orchestra and London Choral Society (071-589 8212)

Sadler's Wells London Contemporary Dance Theatre ends its season with performances tonight, tomorrow and Sat, featuring works by Angelin Preljocaj, Amanda Miller and Christopher Bruce (071-278 8916)

CONCERTS

South Bank Centre Tonight (RFH): Alexander Lazarev conducts BBCSO in symphonies by Szymanowski and Gorecki. Tonight (QEH): Academy of St Martin in the Fields. Tomorrow: Gilbert O'Sullivan. Sat: Seiji Ozawa conducts Boston Symphony Orchestra. Sun: Günter Herbig conducts RPO in Schubert, Rakhmaninov and Brahms, with piano soloist Cecile Ousset. Tues: Mark Wigglesworth conducts LPO in Wagner, Mahler and Sibelius, with mezzo soloist Jard van Nes. Wed (RFH): Jane Glover conducts RPO and Huddersfield Choral Society in Mozart's arrangement of Handel's Messiah. Wed, Sat (QEH): John Eliot Gardiner conducts concert performances of L'incoronazione di Poppea, with cast including Sylvia McNair and Anne Sofie von Otter. Dec 9 and 13: Svetlanov conducts the Philharmonia. Dec 15, 19: Mariss Jansons conducts LPO (071-928 8800)

Barbican Tonight: Colin Davis conducts LSO and Chorus in first of a series of concert performances of Berlioz's Les Troyens, with a cast led by Jane Henschel, Vladimir Bogachov and Luciana d'Intino. The two parts are played on consecutive evenings tonight and tomorrow, Sat/Sun, next Wed/Thurs, plus a complete performance on Dec 12 (071-638 8891)

MADRID

Teatro Lirico La Zarzuela Tomorrow: Miguel Roa conducts Madrid Symphony Orchestra in music for orchestra, military band and zarzuela. Dec 8-22: Compania Nacional de Danza in choreographies by Kylian, Duato and Forsythe (01-429 8225)

Auditorio Nacional de Musica Tomorrow, Sat, Sun: Theo Alcantara conducts Spanish National Orchestra in works by Salvador Pueyo, Ravel and Saint-Saens, with pianist Jean-Pierre Dupuy and organist Anselmo Serna (01-337 0100)

MILAN

Teatro alla Scala The 1993-4 opera season opens next Tues with a new production of Spontini's La Vestale, conducted by Riccardo Muti and staged by Liliana Cavani, with a cast including Karen Huffstodt, Denyce Graves, Dimitri Kavakos, Anthony Michaels Moore and Luca Lombardo (eight performances till Dec 23). Seiji Ozawa and the Boston Symphony Orchestra give a concert on Dec 13, and there will be eight performances of the Nureyev production of Nutcracker between Dec 14 and 31 (02-7200 3744)

PRAGUE

Dvorak Hall Tonight, tomorrow: Gerd Albrecht conducts Czech Philharmonic Orchestra in works by Martinu, Klein, Mozart and Dvorak, with horn soloist Zdenek Tylsar. Next Wed: Foerster Trio plays piano trios by Tomasek and Schubert (02-286 0111)

ROME

Teatro Olimpico Tonight: John Eliot Gardiner conducts Monteverdi Choir and Orchestra in a concert performance of L'incoronazione di Poppea (06-320 1752)

Accademia di Santa Cecilia Tomorrow: Lothar Zagrosek conducts Ensemble Modern in works by Dallapiccola, Lachenmann and Nono. Sun, Mon, Tues: Daniele Gatti conducts orchestral works by Richard Strauss, with soprano Sharon Sweet. Dec 12, 13, 14: Wolfgang Sawallisch conducts Mendelssohn (06-678 0742)

Teatro dell'Opera Tomorrow, Sun: Aida with Giuseppe Giacomini and Nina Rautio. Programme subject to cancellation or change at short notice (06-481 7003)

Universita La Sapienza Sat: Trio di Vienna plays piano trios by Dvorak and Shostakovich. Tues: Alessio Vlad conducts Camerata Strumentale di Santa Cecilia in works by Petrassi, Malipiero and Milhaud (06-361 0051)

TURIN

Teatro Regio Janacek's The Makropoulos Case opens next Thurs, with Raina Kabaivanska and Barbara de Maio alternating as Emilia Marty. Further performances Dec 12, 14, 15, 17, 18, 19, 21, 23 (011-8815 214)

VENICE

Teatro La Fenice Tonight: Garcia Navarro conducts Pier Luigi Pizzi's production of Rossini's Mosè in Egitto, with Ruggero Raimondi and Luciana Serra. The Fenice Orchestra gives concerts under Carl Melles on Dec 11 and 12, and Peter Schneider on Dec 21 and 22 (041-521 0161)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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Super Channel: FT Reports 1230
THURSDAY
Super Channel: West of Moscow 1230; FT Reports 2130
Euronews 0745, 1315, 1545, 1045
FRIDAY
Super Channel: FT Reports 1230
Sky News: FT Reports 2030
SATURDAY
Sky News: 0330; 1330
SUNDAY
Super Channel: FT Reports 2230
Sky News: FT Reports 1730; 0430

هكذا من الاصل

Economic eggheads unscrambled

BOOK REVIEW

He's sick of the lot of them. Alfred Malabre would refrain from using such coarse language. But, after 35 years of business and economic reporting for the Wall Street Journal, his opinion of professional economists seems pretty low. His advice to the public and policymakers: stop listening to these charlatans and follow your gut instincts.

Malabre's long service in the economic trenches gives him a valuable sense of perspective. He points out that the omnipresent economic "guru" is a relatively recent phenomenon. Politicians and industrialists did not always hang on economists' every equation. When he joined the Journal staff in 1958, the paper did not employ any economists. It rarely ran an article about economics on its feature pages. If reporters used terms such as "balance of trade", they had to define them because readers were assumed to be "economic ignoramuses".

This was not an oversight on the Journal's part but a reflection of the low demand for the insights of economists. In those days, few of Wall Street's top firms bothered to employ professional economists: Salomon Brothers, for example, did not set up an economics department until 1961. Economists were just as rare at leading US corporations. The National Association of Business Economists had not been created. The economy, however, was doing just fine.

Malabre fears economists have sold the public a false bill of goods. Through the use of computers and high-powered mathematics the profession has created a largely fraudulent aura of scientific competence. At the same time practitioners have made large sums by pretending to be able to predict the economic future. Yet their forecasts have proved anything but accurate.

Moreover, economists have made grandiose claims for a succession of mutually inconsistent theories – Keynesian economics, monetarism and supply-side economics. In the author's view, none lived up to expectations and each created as many problems as it solved.

LOST PROPHETS
By Alfred L Malabre Jr
Harvard Business School Press 272 pages $27.95

Malabre's first swipe is at John Maynard Keynes. His theories, he argues, had absolutely nothing to do with the US's superior economic performance after the second world war – for the simple reason that Keynesian professors did not begin to exert much influence in Washington until the election of John F Kennedy in 1960. In the 1940s and 1950s policymakers still followed the old rules – balanced budgets, sound money and so on.

The author marvels at the extraordinary hubris of the Keynesian gurus (mostly from Cambridge, Massachusetts) of the 1960s: the Paul Samuelsons and Walter Hellers. Many Keynesians seemed convinced that scientific "demand management" could abolish the business cycle. Yet as soon as Kennedy and Johnson tried to put their ideas into practice everything came unstuck. Their legacy was not endless economic expansion but the inflationary crack-up of the 1970s and the budget deficits that still haunt the US.

The next craze – monetarism – was no better. Indeed, Malabre recalls with shame how "super salespeople" such as Milton Friedman duped him. Friedman assured Malabre in long discussions that there was a reliable short-term link between monetary growth and inflation, but somehow forgot to mention that the velocity of circulation (the rate money changes hands) could vary.

Malabre recalls with shame how Friedman "virtually dictated" articles to him which ran at length on the Journal's front page. Yet the relationship between money and inflation proved more complex than Friedman claimed; by the late 1980s central banks were not sure they could define money, let alone control its growth.

Malabre reserves his strongest invective for "supply-side" economics – the theory that tax cuts would generate so much growth they would pay for themselves. He always regarded this as "nonsense of the worst sort" but had to watch helplessly as the Journal's influential editorial page became prime sponsor of the new gospel. He argues the theory was so daft it could never have won political support without the tireless advocacy of Journal writers such as Jude Wanniski and Robert Bartley. It led, he claims, to record budget deficits, a collapse of US savings and investment and a reduction in the economy's potential growth rate.

The lesson from these debacles, says Malabre, is that economists must learn to be humble. They are not scientists. They cannot predict the future. They have at best a limited understanding of the economy. Their policies are hard to implement and often backfire in unexpected ways. Policymakers, meanwhile, should be less gullible and recognise that the economy has a natural rhythm – the business cycle – which they can do little to tame. They should concentrate on the simple things, like keeping their budgets in balance.

Malabre hints that the economics profession, at least in the US, may now be losing ground. He reports that many companies have reduced their economic staff since the mid-1980s: Citibank, for example, once employed more than 50 economists but now makes do with only a handful. At Harvard, government has overtaken economics as the most popular undergraduate major. President Clinton's economics team consists mainly of lawyers rather than economists. All this suggests economists may now be paying a price for their exaggerated claims to omniscience.

It was time somebody took a shot at economists. Malabre has got his revenge on the eggheads who lectured him for so many years. But his critique, though highly entertaining, is probably too damning. Most economists subscribe to a core of theory – mostly microeconomic – that is useful and that should be heeded by politicians. It is the egotistical forecasters and "super salespeople" that give the profession a bad name.

Michael Prowse

Recipe for reform lacks dash of spice

Elections have strengthened India's PM but he still needs to rally support, says Stefan Wagstyl

The ghost of the destruction of the Ayodhya mosque, which has haunted India for a year, has been laid to rest.

The verdict from six state elections held last month is clear. Though vote counting has yet to be completed, the electorate has rejected the militancy propagated by the Hindu revivalist Bharatiya Janata party.

Supporters of the BJP, the main opposition to the ruling Congress (I) party in parliament, unleashed widespread violence and political unrest after they stormed the mosque last December, resulting in more than 2,000 deaths. At the time of the riots the BJP's support was rising. Before Ayodhya the BJP controlled four of the six states. Now it will run just two.

The BJP's defeat comes as a relief to the Congress party and Mr P V Narasimha Rao, the prime minister, who even a few months ago feared the BJP might do well enough in the state polls to give unstoppable impetus to its demands for an early general election.

The outcome is thus the prospect of greater political stability for the government than seemed likely earlier this year. Mr Rao, under attack from within his own party for failing to combat the BJP with any vigour, has seen his softly-softly approach vindicated. Now, he can look forward to leading the party and the country at least until the next general election due in 1996. Mr H K L Bhagat, the Congress party president, says: "The results have strengthened the party and strengthened the prime minister."

Businessmen have also welcomed the poll result as it provides some assurance of political stability at a time of economic change; so too have stock market investors who yesterday sent the Bombay Stock Exchange's index up 59.71 at 3,292.86 on the first trading day following the election results.

Mr Tarun Das, director-general of the Confederation of Indian Industry, a leading employers' organisation, says: "Stability at the political level is good news for the economy and for investors, including foreign investors."

However, the fact that the government is now relatively stable does not mean that it is popular. The election results show that Indians remain disillusioned with their national political leaders. The fall in BJP support was not matched by any surge in enthusiasm for Congress. Without such enthusiasm, Mr Rao and his party will find it difficult to carry out controversial policies – notably the economic liberalisation he started in 1991.

Setback for BJP's Advani...

...but prime minister Rao emerges in a bolder position

The appeal of Mr Rao's Congress party has worn thin nearly 50 years after it came to power as a nation-builder, leaving Indians looking for a new direction among their political leaders. Some have found it in the BJP's brand of Hindu nationalism, though, as the state polls show, others such as those who voted for the populist coalition in the largest state of Uttar Pradesh, are repelled by the BJP's militant Hindu nationalism.

The BJP's defeat comes as a relief to Rao, who feared its success could have forced early general elections

Nearly one third of Indian voters were eligible to vote in the state elections which took place in four states – Uttar Pradesh, Rajasthan, Himachal Pradesh, and Madhya Pradesh – where the BJP had previously held power, and in two other small states – the city of Delhi and the north-eastern state of Mizoram.

Congress benefited from the anti-BJP vote mainly in the states where it was the only credible alternative – Himachal Pradesh and Madhya Pradesh, where Congress overturned BJP majorities, and Rajasthan, where Congress reinforced its position as the largest opposition party.

But in Uttar Pradesh, the most populous state and the heartland of north Indian politics, the anti-BJP vote was captured not by Congress but a powerful third force in the form of the alliance between the Samajwadi party and the Bahujan Samaj party, representing mainly the deprived lower castes. Congress won just 28 seats in the 425-member state assembly which it once dominated.

The BJP may be down but it is not out. It remains the single largest party in Uttar Pradesh with 176 seats. It retained control of Rajasthan and won Delhi, where state-level polls were held for the first time in 40 years.

Mr K R Malkani, the BJP's spokesman, says the party needs to broaden its support. He claims the BJP suffered because it was wrongly portrayed as a one-issue party committed to claiming the site of the Ayodhya mosque for a Hindu temple. "We have to explain ourselves better to the average man."

Many middle-class Indians have sympathy for the BJP because they see it as a vigorous alternative to an over-conservative, tired-looking Congress. One leading businessman says: "If the BJP can develop a non-religious agenda, it could yet be the party of the future."

Many middle-class Indians see the party as a vigorous alternative to a tired-looking Congress

However, at least until the 1996 national elections, it is Congress which is in power. It will have opportunities for legislative action as early as today, when parliament meets for its winter session. It is already preparing the next tranche of its economic reforms for publication in the 1994-95 budget in February.

Mr Manmohan Singh, the reform-minded finance minister, has indicated the budget will bring further reductions in customs duties, tax reforms and measures to ease private companies' entry into insurance and other industries dominated by state enterprises. He may also further liberalise foreign exchange controls.

However, the political obstacles to further radical reform remain daunting. Congress generally is willing to accept economic liberalisation – such as customs duty cuts and incentives for exporters and foreign investors – but only if it can be achieved without too much political hardship.

But, with a few honourable exceptions, MPs are loathe to contemplate more painful measures – such as relaxing tough labour laws which prevent companies sacking workers and cutting jobs in the over-manned public sector, which absorbs about two-thirds of India's organised labour. As Mr P Chidambaram, a pro-reform MP and former commerce minister, says: "There is support for reform. But a critical mass of support is absent."

Mr Manmohan Singh believes that a pro-reform consensus is steadily growing both in Congress and in the country at large. Economic reform was not an issue in last month's state polls, not least because the BJP generally supports liberalisation. But Janata Dal and other parties of the left which have been strong critics of pro-market reform fared badly at the elections.

MPs have good reason to be wary of radical reform. In the mountain state of Himachal Pradesh, the outgoing BJP administration pursued exemplary pro-market economic reforms – including trimming state spending, cutting subsidies for apple farmers and introducing a no-work, no-pay rule for civil servants who went on strike (which they often did). The result was electoral disaster.

But Mr Chidambaram believes that support for reforms could grow with a stronger lead from New Delhi. Even cost-cutting in state-owned industry and other controversial measures are "possible", he says.

At the Confederation of Indian Industry, Mr Das agrees: "Reforms are on Manmohan Singh's agenda. I believe the prime minister will now let him get on with it."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Difficult education issue side-stepped

From Dr A P C Bruce.

Sir, Your report on the expansion of student numbers in UK higher education does not provide an accurate account of its funding implications for the universities ("Student population reaches 1m", November 23). There is no sense in which the Committee of Vice Chancellors and Principals regards the current level of higher education funding as "adequate".

There has been a severe squeeze in the unit of funding over the past few years, with increased resources falling far short of the rapid growth in student numbers. Among the most obvious consequences of this squeeze are a marked decline in the relative pay position of academic staff, a serious maintenance backlog and a general decline in the quality of the student experience. The fall in the unit of funding continues with the announcement on Tuesday that further annual "efficiency gains" of 4 per cent will be imposed in the next two financial years.

Constraints on public expenditure have also resulted in the government's decision to cap the student intake at present levels for a three year period. However, on the basis of international comparisons, there is certainly no reason for complacency about current levels of participation in UK higher education. Without further sustained expansion, the aspirations of many potential students, including those coming up through the still-expanding further education sector, are unlikely to be met.

Increasing participation in higher education from 30 per cent to 40 per cent of the 18-19 age group would require additional funds in excess of £1bn a year. Further resources would also be needed to compensate for years of under-investment. In present circumstances, funding at these levels might well require a direct contribution from the beneficiaries of higher education towards the cost of their tuition.

The CVCP regrets that the government has stepped away from this difficult issue in its Budget announcement and appears to be content to rest on what has been achieved so far.

A P C Bruce,
head of resources and funding,
CVCP,
29 Tavistock Square,
London WC1H 9EZ

Right that aspirations of Russia not endorsed

From Mr Viacheslav A Skryghin.

Sir, The position you have taken with regard to Russia's self-proclaimed role as "peacekeeper" within the republics of the former Soviet Union in your editorial, "Russia and its neighbours" (November 22), is commendable to we who live directly within Russia's sphere of influence.

While there is little question that Ukraine and Russia are culturally, linguistically and economically interrelated and that continuing such ties will be beneficial to both nations, it is also crucial that the international community recognises the existence of Russian proclivities to undermine stability in the region. These proclivities are the result of Russia's attempt to regain its former superpower status and are evidenced by many of its recent policy statements, including that which your editorial examines.

It is comforting to know that some of Russia's actions which attempt to shroud its inclination to dominate the affairs of sovereign nations are recognised as such by the international community and are appropriately not endorsed.

Vlacheslav A Skryghin,
vice-president,
Ukrainian Financial Group,
15 Proreznaya Street,
Kiev,
Ukraine 252034

Why provision of motorway service on M40 was delayed

From Mr Robert Key.

Sir, The letter from Miss Pirie (November 26) highlights the absence of services on the M40. I would like to make clear that my department proposed three motorway service areas for the M40, intending to open them at about the same time as the road. All three schemes, however, provoked objections which led to lengthy public inquiries and substantial delays in provision. Planning clearance was eventually refused for one of the sites, but it was granted for the other two and construction is now under way; both are due to open next year.

In the meantime temporary facilities, open 24 hours a day, are signposted from the motorway at Junction 10 and between Junctions 13 and 15.

Following a commitment in the Citizen's Charter, future motorway service areas will be promoted by the private sector rather than the department. I understand that at least three planning applications for further service areas on the M40 are currently under consideration.

Robert Key,
minister for roads and traffic,
Department of Transport,
2 Marsham Street,
London SW1P 3EB

Unions will seek wage increases to counter 'damage' of Budget

From Mr Bill Morris.

Sir, I am glad that, amid all the theatrical oohs and aahs which have greeted the chancellor's magic deficit disappearing tricks, your leader ("Mr Clarke shows his skills", December 1) has reminded us that this is a tough Budget. It will be particularly tough for the low paid, the unemployed and those struggling to survive with the backing of the tattered remains of our welfare state.

This has been no ordinary Budget to balance revenue and expenditure. It underlines the government's fundamental shift to indirect taxation aimed at allowing wealthier Tory supporters to enjoy a disproportionate share of the national cake.

The message is: if the wealthy don't need it, let's scrap it. If they do need particular services, let's find a way of ensuring they pay less than they can afford while others pay proportionately more of their income.

With three new taxes – insurance and airport taxes, and a threatened tax on motorway travel – combined with increased indirect taxation on petrol and cars, it is clear that living costs will rise in consequence. That means the poor will pay more, and for reduced services.

This strategy represents a clear attack on the interests of ordinary working people. Until it becomes possible to change that strategy, trade unions will pursue their members' interests by seeking wage increases which take account of the damage the Budget will do to standards of living.

Bill Morris,
general secretary,
Transport and General Workers Union,
Transport House,
Smith Square,
Westminster,
London SW1P 3JB

From Mr Ken Cameron.

Sir, In your Budget '93 special, you stated: "The projected public sector pay freeze on which all the figures are predicted remains a heroic assumption."

The chancellor said that pay increases for public sector staff would have to be paid for by greater efficiency.

The workload in the fire service has increased by 65 per cent. We are operating without the approved number of firefighters in post. For these people, and millions of others trying to deliver essential services to the community, heroism is a daily duty.

They deserve better than a further two years of pay restraint in order to rescue an incompetent government.

Ken Cameron,
general secretary,
Fire Brigades Union,
Bradley House,
68 Coombe Road,
Kingston Upon Thames,
Surrey KT2 7AE

FINANCIAL TIMES
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Thursday December 2 1993

Russian democracy

On October 4, when forces loyal to President Boris Yeltsin were still battering the remains of the Russian parliament into submission, western governments were quick to express their support for him. They were right to do so, because Mr Yeltsin was clearly preferable to his opponents. Parliament had degenerated into a rabble, taking its lead from an alliance of communists and fascists. Mr Yeltsin at least offered some hope of coherent government. He also promised to make the people the final arbiters of the conflict.

This latter point was stressed in a solemn declaration issued by European leaders four days later: "We attach the utmost importance to the earliest possible holding of free and fair elections which will give the Russian people the possibility to express themselves clearly on their future and create conditions for the adoption of the required new constitution."

In the event Mr Yeltsin telescoped that process. He has called on the Russian people, in 10 days' time, both to elect a parliament and to adopt a constitution under which that parliament would serve. This involves a contradiction. Some opposition parties are campaigning not only against Mr Yeltsin's government but also against the draft constitution, which – modelled on that of the fifth French republic – gives the president very extensive powers. Were they to succeed in defeating the constitution, theoretically they would also invalidate their own election.

Official warning

Last week Mr Yeltsin seized on that contradiction (which is actually of his own making) to threaten his opponents with loss of their free air time for party political broadcasts if they continued to use it to attack the constitution, rather than explain their own programmes. This week Mr Vladimir Shumeiko, first deputy prime minister and chairman of the commission organising the referendum, went further, demanding on the same grounds that two leading opposition parties be disqualified outright and two centre ones be given an official warning.

Evidently Mr Yeltsin and some of his aides are worried that the constitution may be defeated, or (more likely) that the 50 per cent minimum turnout may not be reached. They should realise that the best way to ensure a good turnout is to have a lively debate, and that their attempts to interfere in the electoral process can be counterproductive. At least the main pro-government party, "Russia's Choice", realises this: its leaders hastened to explain, rather quaintly, that Mr Shumeiko had spoken "only" in his official capacity, and not as a candidate of their party.

Misplaced scepticism

Mr Yeltsin and his advisers should also realise that their outbursts are prominently reported in the west, and contribute to a widespread western scepticism about the depth of their commitment to democracy and the "free and fair" quality of the current electoral process. That is unfortunate because the scepticism, especially on the latter point, is largely misplaced. What is surprising about the election campaign, given all the circumstances, is its freedom and vigour. In a perverse way Mr Yeltsin and Mr Shumeiko have provided new evidence of this: opposition parties have ignored their warnings, and Mr Shumeiko's call for their banning has been summarily rejected by the electoral commission.

Party political broadcasts have also been used for scathing attacks on the government, some of which would fall foul of libel laws, or indeed of anti-racist legislation, in many western countries. Opposition newspapers, most of which have been allowed to reappear after the brief clampdown imposed in October, are similarly outspoken. Only the most overtly racist, such as Dyen, remain banned. It is true that Russia's Choice is better financed than its competitors. But in which western democracy could that not be said of a strongly pro-business party?

Perfect formal democracy is a rare bird, very unlikely to be sighted in a country as large and hard to govern as Russia, which has no democratic tradition and is trying to come to terms simultaneously with the dissolution of its empire and the collapse of its economic system. All things considered, the process we are now witnessing is a much closer approximation to it than anyone had a right to expect.

Public sector pay freeze

Tuesday's Budget has set tough targets for UK public spending over the rest of the decade. More than £15bn has been lopped off general government expenditure for the next three years. The cumulative increase in spending between 1993-94 and 1998-99 will be held to less than 4 per cent, compared with a rise of almost 13 per cent in the six years from 1980-81. Mr Clarke and Mr Major are thus more ambitious in expenditure plans than Mrs Thatcher and her chancellors ever dared to be.

In pursuing these targets, an important role will be played by a clampdown on public sector pay. For government departments, running costs will be held at this year's level of £20bn for the next three years. Provision for pay throughout the rest of the public sector has been set on a comparable basis. Providing it can be made to stick, this freeze is likely to make the largest contribution to the £5.7bn cut in public spending forecast for 1994-95.

The approach is at the centre of the continuing attack on waste and inefficiency in the public services, according to Mr Michael Portillo, the chief secretary. He believes that efficiency savings of 2 to 3 per cent a year can be found throughout the public sector. Some of this can be used to increase the pay of employees, though part must be ploughed back into the service itself.

This is a blunt weapon for improving the efficiency of public services. Yet it may be the only one left in the government's armoury. White-collar civil service numbers have changed little over the past 10 years. The number of local government employees is almost identical to that of 1979. And most health service managers have made little use of their greater freedom to reduce staff costs. Similar organisations in the private sector have made great improvements in efficiency in recent years, often driven by cuts in staff costs imposed during difficult times. The same approach is needed in the public sector.

Catch-up exercises

However, the experience of pay policies which apply only to the public sector suggests that some consequences may be less benign. If efficiency savings are not found quickly enough, pay in the public sector tends to lag behind the private sector, making it harder to attract good people into the public services and undermining standards. These pressures have then invariably led to expensive catch-up exercises to restore comparability, just at the point that private sector settlements are tailing off and so putting extra pressure on companies to match the high headline pay increases awarded to the public sector.

This time it may be different. The framework for greater decentralisation of public sector pay determination is now largely in place. Some local authorities and health organisations have used their greater freedom to be flexible on pay and staffing. From next April, some government departments and the larger agencies will have responsibility for the pay of their staff. And the government appears to accept that extra money may have to be made available for groups such as the police, teachers and nurses, where efficiency savings are unlikely.

Sensible decisions

The introduction of accruals-based resource accounting for government departments will also give civil service managers the tools they lack to make sensible decisions about costs, resources and priorities. So too will the Treasury's relaxation of the annuality rules, which discourage managers from making savings by clawing back the money. But it must be asked whether public sector management systems are sufficiently well-developed or robust enough to meet the challenge they have been set. Enormous efficiency savings will be needed to compensate for a real fall in the pay bill of as much as 10 per cent over the next three years.

The cash-limiting of running costs is an excellent discipline in reining in public service costs. But earnings in general rise faster than prices over the medium term, even in periods ministers describe as "inflation-free". Holding the increase in cash limits so far below the rate of inflation risks an explosion, perhaps in 1995-96, with a general election in prospect. Ministers have set the right course, but they will need to tack a little if they are to reach it.

ECONOMIC VIEWPOINT

Now time for a post Budget notebook

By Samuel Brittan

What an absurd British institution Budget day is. The real Budget is not the chancellor's speech – which is a political showcase – but the Financial Statement and Budget Report, popularly known as "the Red Book". This is now 143 pages long. Yet it is issued only just before 5pm when the chancellor sits down in the House of Commons. And to let readers into a secret, the first editions of most newspapers have to be ready two or three hours later.

Thus it all turns into a great obstacle race; and a magnificent job is done in the circumstances. Editors congratulate their staffs; and the Treasury has even been known to congratulate editors. It is no doubt very British to turn a heavyweight political and financial occasion into a sporting contest. But how absurd and how unnecessary.

A seriously unified Budget would be in two parts. The first would contain the main tax and spending decisions. The second, a couple of days later, would contain the detailed expenditure decisions and, if necessary, the more technical changes emanating from the Inland Revenue and Customs and Excise. Both would be issued at 9am. And if courtesy to the Commons meant that the latter body met in the morning on those days, it would do MPs no harm.

As usual I went to the House – not to witness a parliamentary occasion but because it gave me the chance of picking up my copy of the Red Book a few minutes earlier. What struck me from the question time exchanges before the Budget was how little debate there really is. The Labour leader, John Smith, asked the prime minister why Britain's Budget deficit was worse than that of Japan, the US, Germany and seven other countries. John Major made no attempt to answer, but reeled out different facts about exports, unemployment and growth. The Opposition leader in turn ignored these and denounced "mismanagement" of the deficit. The Prime Minister then rather sensibly responded by asking what Labour would cut. No-one answered anyone else; nor was expected to. Ministers and their shadows are judged by how snappily they reel off prepared briefs, irrespective of the question asked. A European federal assembly could not be worse.

* * *

The best summary of the political economy of the Budget comes from the accompanying chart. What would the proverbial Rip Van Winkle, awakened from the late 1920's, make of it? He would, first, have to be told that the gap between government expenditure and tax revenue does not all represent the Budget deficit, but that some of it represents nationalised industry profits, oil revenues and other receipts.

Having swallowed this much, Mr Van Winkle might assume that a Labour government had come into office around 1979-80, determined to lever the tax band upwards. He would see a temporary recession-induced fall-off in that burden in the early 1990s, which the government was correcting as soon as it could. Seeing, however, that public spending was also under gradual downward pressure, he would come to an additional conclusion. This was that Philip Snowden – the highly orthodox Labour chancellor whose budget-balancing economies at the onset of the Great Depression brought down the 1929-31 Labour government – was, after all, still in office.

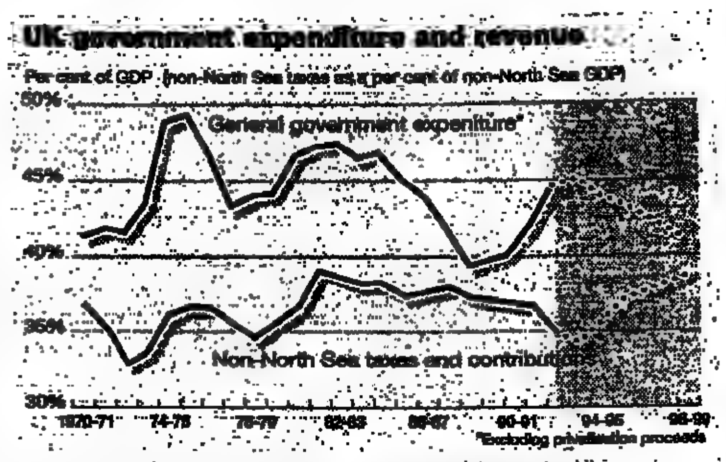
* * *

Further study of the Red Book confirms one's initial impression of the fiscal details. Take together Norman Lamont's 1993 Budget, which covered taxation only, and Kenneth Clarke's November Budget. Then compare 1993-94 with 1996-97. We then see a planned fiscal tightening of £20bn per annum, or 3 per cent of GDP. Of this, Mr Lamont's Budget contributed £9½bn. Of Mr Clarke's additional £10½bn some £6bn comes from higher taxes and £4½bn from reductions in earlier public spending plans.

If there were a Depression, the Treasury would not expect it and policy would be inadequate

The spending side is tricky to assess. Nearly half comes from lower government debt interest and cyclical social security, which reflects lower inflation and the modest economic recovery so far rather than heroic tussles with the spending departments. Most of the rest is accounted for by a lower reserve for contingencies. This is normal enough. But the bottom line consists not of cuts but of determination to make existing spending guidelines – including the freeze on departmental wage bills – effective.

* * *



General government expenditure (excluding privatisation proceeds)

£m	Changes from previous plans/projections		
	1993-94	94-95	95-96
Central government expenditure	3,460	500	2,600
Local authority expenditure	[illegible]	[illegible]	-600
Financing requirements of nationalised industries	-430	30	-420
Reserve	[illegible]	[illegible]	[illegible]
Adjustment	-900		
Debt interest	[illegible]	[illegible]	[illegible]
Cyclical social security	-1,100	-1,600	-1,200
[illegible]	[illegible]	[illegible]	[illegible]
Accounting adjustments	400	600	600
General government expenditure excluding privatisation proceeds	[illegible]	[illegible]	[illegible]

Source: The Red Book

What of the principles of economic policy? There were none in the Budget speech; and I do not entirely blame Mr Clarke for avoiding doctrinal hostages to fortune. But there are none so theory-bound as those who think they are pragmatic; and it is a commentator's duty to look at the criteria for policy.

Three main planks can be discerned. There is short-term economic forecasting – which becomes more important every time a Chancellor tries to talk it down. Secondly, there is the Budget-balancing view of fiscal policy and, thirdly, a naively monetarist attitude to interest rates and inflation.

The economic forecasts are still based on adding up obvious components of demand – all put into volume terms with inflation taken out. The relationships are based on what might be called anti-Victorian values. If people try to be more thrifty and save more, then output and employment are reduced. Lady Thatcher would have had a fit if she had realised how the forecasts were drawn up.

It would be hypocrisy for me to disagree with the underlying logic – except for the treatment of inflation, which is not now central. My objection is to the substitution of crystal ball gazing for thought. The panel of independent forecasters (not, not the 'wise men') has turned out to be a giant step backwards. The Treasury uses the panel quite explicitly in the Red Book to show that its own predictions are near to, but slightly more pessimistic than, the average of the independents on both output and inflation.

None of this is much use, however. For when the forecasters have made the most harmful errors, they have usually erred together; and if the Treasury simply wants to show how near to the consensus it is, why bother to have an in-house team at all?

The policy doctrine in force is, however, the opposite of what might be inferred from the forecasting methods. Something very like the old Treasury view, which Churchill – to his later regret – advocated in the 1920s, prevails. This is that the object of fiscal policy is to balance the Budget and that the government cannot or should not stimulate demand and output by spending more or taxing less. Indeed, Mr Clarke has frequently said the upturn is not as vigorous as he would like, and then spoken in the next breath of the need to put the public finances in order – which means cutting both public and private spending. There is nothing peculiarly British in this combination of under-consumptionist forecasting and fiscal puritanism. It is a notable feature of IMF reports.

The Treasury now publishes variants, showing that with even slightly slower growth than envisaged, public sector borrowing would be much higher. But of the policy implications – whether to tighten for fiscal reasons or lessen to stimulate the economy – we are not told a single thing.

Finally, there is the view that the Bank of England has a special hot line to inflation which it can fix by shifting interest rates without any intermediate effect on economic activity. I used to shudder at this view, as a caricature of monetarism, which discredited what was valuable in that doctrine. But this caricature is very close to the words of the Budget speech.

A similar black magic view is held by many of those now advocating an independent Bank of England as a panacea – as if the Bank could directly eliminate inflation without affecting the rest of the economy. A better reason for Bank independence is to make that institution accountable, which it is not at present.

As Adam Smith said, there is a lot of ruin in a nation. Whatever the headline doctrine, the Bank of England tries to manage nominal demand and does not just drive for zero inflation at all costs. There are also more self-correcting mechanisms in the world and British economies than forecasters envisage. Moreover, there are political inhibitions on fiscal rectitude.

But I still worry that if there were a Great Depression – or even a prolonged stagnation – that neither the Treasury model, nor the forecasting panel would expect it; and that the policy would be somewhere between inadequate and perverse.

Fatal attraction to wrong decisions

Tony Jackson on a lack of luck and judgment at Ferranti

Ferranti's final collapse into receivership yesterday raises some depressingly familiar questions. The company's history is one of technological triumph dragged down by commercial incompetence. Not all the blame lies with management. In the past 20 years the UK government's handling of Ferranti has veered between lame-duck subvention and dogmatic faith in competition, with little space for market solutions in between.

There is a kind of melancholy duty about recalling Ferranti's record in the field of innovation. In the early 1960s it developed the Atlas computer, which challenged the largest machines available from IBM. In the same decade, it was one of the pioneers in numerical controls for machine tools. In the 1970s it developed the first European microprocessor, and in the early 1980s took a world lead in so-called ASIC (application-specific integrated circuit) chips, sold to Black & Decker for drills, Sinclair for computers and Leica for cameras.

All of this came to nothing. The computer business was sold to the British computer maker ICL, now part of Fujitsu of Japan. The technology for numerically controlled machine tools now rests in the hands of Japanese, American and German manufacturers. ASIC chips were eventually abandoned, on the grounds that the required investment was too big and the likely return too small.

The obvious question is what Ferranti could or should have done instead. It is hard not to feel a twinge of sympathy for any company which loses its nerve after a series of strategic reverses. Indeed, to be risk-averse in those circumstances may be no more than sober realism. But one conclusion stands out. If a company cannot afford the going rate of investment in its industry, or no longer has the stomach to bet the ranch on a new technology, it is in the interests of employees, shareholders and industrial efficiency that it should resign its independence while the going is good.

Ferranti did the reverse. Its catastrophic acquisition of International Signal and Control in 1987 was the hammer-blow from which the company never recovered. It may seem unfair to generalise on the basis of ISC, a company so bizarrely fraudulent as to deserve a place in the commercial history of the 20th century. Even at the time, though, it was apparent that Ferranti was taking a risk of a different kind. Determined to retain its independence, it took on a company of such notorious secrecy and opacity that no sane competitor would risk a hostile bid for the combined entity.

The essential point is that while ISC finished Ferranti off, the original business was sliding downhill on its own account

The essential point is that while ISC finished Ferranti off, the original business was sliding downhill on its own account. Even as the fraud unfolded in the late 1980s, Ferranti itself was periodically in loss. Its technological ambitions were pathetically diminished. Amid the world revolution in telecommunications, Ferranti's answer was to invest small sums in low-cost telepoint technology, which in the UK has already proved a dead loss.

Long before the ISC debacle, Ferranti had taken another fatal strategic decision. If the risks and rewards did not stack up in the world of commercial competition, the answer was to seek safe haven in the cost-plus, nationalistic world of defence. This left the company open to the risk that defence spending would turn down, as happened after the collapse of the old Soviet Union. It also exposed it to another serious risk: that fashions and ideology would change in British industrial policy.

Having been bailed out with taxpayers' money in 1975, Ferranti thus found itself 10 years later at the mercy of a new ideology which said that if Britain was to depend on domestic suppliers of defence equipment, it would at least guarantee competition between those suppliers. It was in vain for Lord Weinstock of GEC to point out to the Ministry of Defence that companies like Ferranti and Plessey were no longer big enough to carry the burden of research and technology. In the interests of competition, they had to be left to fend for themselves.

The irony thus is that Ferranti could probably not have surrendered its independence had it wanted to: not at any rate in the mid-1980s, when it really mattered. The UK government has since reversed its stance, so that GEC has bought the essential bits of Plessey and will doubtless have official blessing to snap up the remaining defence bits of Ferranti from the receivers. If business, like war, needs luck as well as judgment, poor old Ferranti has had the worst of both.

OBSERVER

Not beyond our ken

■ It's a good job you can't judge a book by its cover. Otherwise the rushed-out analyses of the UK Budget from James Capel, Crédit Lyonnais Laing and UBS economic research units should by rights have been binned immediately.

The UBS cover shows a tattered Ken Clarke trumpeting "Hey Big Spender" – hardly appropriate given the nature of the measures he announced. James Capel's glossy goes in for a Christmas feel, with Ken as Mr Scrooge being handed – inappropriately enough – a piece of paper with VAT on it.

But at least they escaped the wild fantasy dreamed up by the team at Crédit Lyonnais; that shows Ken as Freddy Kruger, the cinematic monster who has knives in place of fingers, with the caption "Nightmare on Downing Street".

Given City and public reaction to the Budget, far from presenting John Major with a nightmare, Ken seems to have offered him the chance of his first sleepless night in ages.

Feudal justice

■ Rarely does Britain's Department of Trade and Industry show imagination. But in its investigation into the affairs of hotel chain Queens Moat Houses – which recently notched up the second biggest loss in UK corporate history – a bright spark has been at work.

For the DTI has selected Patrick Phillips QC as one of its inspectors on the case – and Phillips knows about moat houses. Each summer he organises a historical recreation of Tudor domestic life at his restored stately home, Kentwell Hall, complete with moat and 200 suitably dressed Elizabethans.

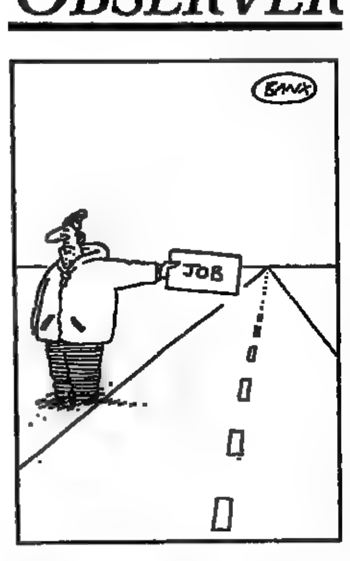
Queens Moat executives may have cause to fear that Phillips' love of the 16th century encompasses another favourite Tudor practice: head-chopping.

PC plodders

■ They seek him here, they seek him there; but they can't find him because they haven't looked in Bangkok.

Scotland Yard had been hunting Brazil's most wanted man, Paulo Cesar Farias, alleged to be at the centre of the corruption ring, the discovery of which brought down former president Fernando Collor.

Farias eluded arrest in the UK last month, where he had been living since fleeing Brazil in June. But unfortunately for PC, as he is universally known in Brazil, he has a face as familiar in Brazil as any soap opera star, and was



spotted by a visiting Brazilian in a posh Bangkok hotel.

He is now, according to the Brazilian government, being kicked out and sent home.

Battering Ramsden

■ There are those who think that Harry Ramsden's is the Coca-Cola of the world fish and chip industry because its success is based on a secret recipe for its batter – unchanged since Harry opened his first chippie in Leeds in 1928.

Hence there might be some concern about the news that Ramsden's – which sells over 2,300 tons of chips and 940 tons of haddock in its eight shops – is putting its name to a new type of batter developed for one of United Biscuits' frozen food businesses.

However, John Barnes, Harry Ramsden's chairman, reassures Observer that his secret is safe. But if he's doing so well, why get into bed with a potential rival?

"Two million packets of frozen fish sold in supermarkets every year with our name on them, that's why," says Barnes, who sounds like a Yorkshireman – even if he doesn't speak like one.

Timetable

■ Those who set deadlines at Barclays have often come to regret it. Remember the slogan of Sir John Quinton's era – "Number One by '91"?

The ensuing burst of poor lending led to huge bad loan provisions, Sir John's departure as chairman, and the management ructions that have since dogged the bank.

Now we have a fresh date. Martin Taylor, the youthful new chief executive, says in an interview with Banking World that he has given himself two years after he starts full time in January to make an impact. "If at the end of two years – and two years is a deliberate timeframe – the business has no direction, then that will be my fault," he says.

Things will be fixed by '96?

Rising sap

■ George Bush's honorary knighthood may cement British relations with Texas – Mark Thatcher, Steve Wyatt and so on – but Ann Richards, the salty Democratic governor of the Lone Star State, shows much less respect for the former first family.

She could well battle against the ex-president's oldest son, George Walker Bush Jr, in next year's governor's race. Getting her knives in early, she has started referring to junior as "shrub".

Nice try

■ One City figure who did not have a particularly good Budget was Lehman Brothers' Tony Underwood, one of the stars of England's 15-9 victory over New Zealand's All Blacks last Saturday. Having spent his pre-Budget lunch-hour warming up in a local gym, England's dashing winger was about to return to his post on Lehman's equities desk in time to hear the chancellor speak, when he found that someone had run off in his shoes. Worse still, the person who had "borrowed" them turned out to be a Kiwi.

FINANCIAL TIMES
Thursday December 2 1993

■ Interest rate cut expected ■ Clarke warns of public sector pay limits

Share and gilt prices in Britain jump on post-budget confidence

By Peter Marsh and Philip Stephens in London

UK shares and government securities rose strongly yesterday on hopes that this week's budget would help the British recovery without stoking inflation and that a cut in interest rates was on the way.

The London equity and gilt-edged markets recorded their biggest gains since sterling left the European exchange rate mechanism in September 1992 as investors gave a vote of confidence to the spending cuts and tax rises announced on Tuesday by Mr Kenneth Clarke, chancellor of the exchequer.

The FT-SE 100 index jumped 66.3 to 3,233.2, a new record high, while long-dated gilts gained nearly 2 points helped by large purchases from UK institutions and investors in continental Europe and the US.

The optimistic sentiment was helped by comments from Mr Clarke who said the British economy was strong enough to withstand the tax increases and spending cuts.

He told journalists that the growth forecast of 2.5 per cent next year was "modest and realistic" and that measures to bring down the 1994-95 fiscal deficit from an expected £44bn to £38bn ($54bn) would help business and consumer confidence.

Although Mr Clarke did not encourage expectations he would allow a cut in banks' base interest rates from 5.5 per cent, the pound fell on speculation that such a move could come soon, perhaps before Christmas.

Sterling closed last night in London at DM2.5435, down half a pfennig, while it lost nearly half a cent to finish at $1.4805.

Mr Clarke yesterday called for a permanent break with the Britain's postwar pay bargaining culture as he warned that 5m public sector workers could expect only "very modest" increases in the next three years.

Mr Clarke said higher pay awards in the public sector could only be financed by efficiency savings. He offered a strong hint that this would mean a ceiling on pay increases for most public sector workers of 1 or 2 per cent a year. But other cabinet ministers suggested that workers in "politically sensitive" sectors such as the police, nurses and teachers might expect more.

Mr Clarke's budget package continued to draw wide support from both the right and left of the ruling Conservative party, despite rumblings among some rank-and-file MPs about the impact of planned defence cuts.

He moved swiftly to counter angry opposition charges that deep cuts in benefits marked the beginning of an assault on the welfare state.

Brushing aside the ambitions of some of his rightwing colleagues to shrink the size of the public sector, Mr Clarke said the basic state pension would remain a permanent fixture.

Mr Clarke's tough line on pay came amid mounting anger among unions that relatively low paid workers in the public sector would bear the brunt of the budget's unprecedented squeeze on government spending.

Overall, the cuts in the spending targets for the next three years were judged by Mr Andrew Dilnot, director of the Institute for Fiscal Studies, to represent a far tougher policy than anything achieved in the 1980s.

But Mr Clarke insisted that low inflation had transformed the environment in which wage bargaining would take place and said that those in work had to take account of the interests of almost 3m people who were unemployed.

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Editorial Comment, Page 15
Government bonds, Page 22
London shares, Page 33

Russia's Choice opposes call for ban

By John Lloyd and Dmitri Volkov in Moscow

Russia's Choice, the leading reformist group in the Russian election campaign, has sharply criticised Mr Vladimir Shumeiko, the first deputy prime minister, for calling for the banning of the Communist and other parties over their attacks on the draft constitution.

In doing so, the group has distanced itself for the first time from Mr Boris Yeltsin, the Russian president, who had threatened to deprive parties of TV time for criticising the draft.

The move, which puts Russia's Choice in the same camp as other conservative and reformist parties - both in opposing a ban and the loss of airtime - shows that on some issues it has decided it is better to support democratic practice than support the president.

Meanwhile the latest poll, by the Mnenie organisation, showed both main reformist parties, Russia's Choice and the Yabloko group of Mr Grigory Yavlinsky, losing ground compared to their position in mid-November. The poll also showed a surge of support for the neo-fascist Liberal Democratic party of Mr Vladimir Zhirinovsky. However, the poll recorded nearly 50 per cent of respondents as undecided.

Publication of further polls is banned from today until election day, December 12.

Mr Shumeiko's demand that the Communist, Democratic and possibly other parties be banned for their criticism has been summarily rejected by the electoral commission and by the arbitration court which pronounces on political balance in the media.

Mr Shumeiko's call, which had electrified the pre-election atmosphere, followed a warning by Mr Yeltsin of the loss of the free broadcasting opportunities granted to all 13 groups contesting the election. Mr Yeltsin had also proposed that the two chambers of parliament meet in two buildings far apart - a proposal also criticised by Russia's Choice as hindering efficiency.

Mr Yegor Gaidar, first deputy prime minister, who heads the group, said on Tuesday night that criticism of the constitution was no grounds for banning a party. Mr Gennady Burbulis, a former close aide to Mr Yeltsin and another leader of Russia's Choice, yesterday apologised for Mr Shumeiko, condemned his call and said it did not reflect the Russia's Choice position.

Mr Gary Kasparov, the chess champion, who is a Russia's Choice candidate, went further, saying that "the whole group will suffer" for Mr Shumeiko's action, which he said was "irresponsibility bordering on provocation".

Mr Burbulis also objected to Mr Yeltsin's choice of the former Comecon building as a site for the State Duma, or lower house of the parliament, and to the building now housing the government press centre as the site of the Federation Council, or upper chamber.

He suggested instead that it be housed within the Kremlin complex itself, or in the White House - the former Supreme Soviet building, now being restored after its siege by the army on October 4.

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THE LEX COLUMN

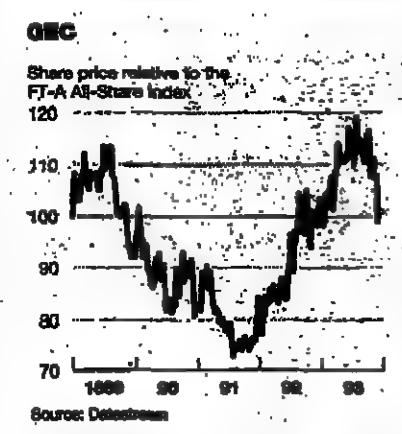
Jazzing up the market

It is strange that a budget lauded for being tougher than expected should drive UK equities into such a frenzy. Worries about an attack on their tax privileges have kept pension funds on the sidelines, but it is difficult to believe that their return was responsible for yesterday's 2 per cent rise in the FT-SE 100 index. Investors caught short of stock going into the budget are more likely culprits, in which case equities might now settle back.

Relief that budgetary balance is being pursued through lower spending rather than higher taxes is certainly not a cause for celebration on the scale seen yesterday. Either way the impact will be deflationary. With the public sector constrained and tax rises slowly squeezing consumers, the corporate sector will have to perform exceptionally well for the chancellor's growth targets to be met. There is always scope for another cut in interest rates, but results from GEC and Argyll are reminders that companies are hardly brimming with confidence.

The upward march of gilts looks more convincing. The position of gilts relative to overseas markets limits the scope for progress ahead of next week's £3bn auction. The yield differential between 10-year gilts and German bunds is already close to its recent limit. If the chancellor can maintain his new-found credibility, though, international investors will come to accept a smaller premium. Lower gilt yields could then provide some support for equities, too.

FT-SE Index: 3233.2 (+66.3)



GEC

A profits warning is hardly the ideal end to the good run which GEC's shares have enjoyed over the past year. Some of the mix of reasons offered are perhaps understandable - opportunities in the cables market and difficulties with customised chips. Others, such as cost overruns on development projects, are hardly the kind of problem normally associated with Lord Weinstock.

Still, in the longer term there are grounds for optimism. With projects like the European Fighter Aircraft in development, defence margins are being squeezed now but may recover, despite shorter production runs and potential postponements. In power systems, technology may also allow contracts to be won at higher margins than in the past, particularly with strong worldwide demand for gas turbines and fast trains.

The UK government's oft-repeated assertion that it wants private help with infrastructure projects may also finally start to move now that Sir Alastair Morton is starting to shove. Since GEC seems keen to use part of its cash, projects like the Channel tunnel rail link might well be attractive. Forming a structure which would encourage the company to fund the refurbishment of the West Coast main line might be harder, even if an order for GEC Alsthom trains were to follow. Meanwhile, steering the company through the world recession towards such prospects is a task equal to the management's traditional talents.

Argyll

Argyll's decision to depreciate its freehold assets and scale back its store opening programme helps clarify some of the uncertainties bedevilling the food retailing sector. Some other grocers are likely to follow Argyll's lead, ensuring their stated earnings will stall - or even fall - over the following few years. The market had implicitly assumed as much and confirmation could even come as a relief. Attention may now switch to other valuation criteria, which suggest food retailers possess more value than reflected in their stock market worth. It certainly appears anomalous that Argyll yields 5.5 per cent while it boasts such generous dividend cover.

Argyll has not yet accepted the logical conclusion that it should cut its opening programme still further and return more cash to shareholders. Such a volte face would perhaps be too great coming just a year after it committed itself to accelerating capital spending. Were it any smaller, that might make Argyll vulnerable to a bid. A predator would certainly have the financial leeway to make brutal asset write-downs and halt capital spending, releasing a torrent of cash flow. Retailing rivals would find it hard to justify opening more superstores in such circumstances, restoring price equilibrium to the market.

Ladbroke

Things are not looking good at Ladbroke. While City attention was focused on Tuesday's budget speech, the company announced that a senior director had sold just over half his stake. Then yesterday it dribbled into the market the news that, while others are still cautiously awaiting the small print, it is leaping at the chance to pay a foreign income dividend. Only after the market had closed and its shares had already fallen 12 per cent did it issue a formal statement through the Stock Exchange. Ladbroke's assessment that the announcement was not price sensitive looks curious when the foreign income dividend will reduce the return to institutions who will be unable to claim a tax credit.

The main market worry is that the company appears to be scrabbling around for ways of maintaining an unsustainable dividend instead of working to reduce its £1.5bn borrowings and repair its balance sheet. There may well be an innocent explanation for the share sale by Mr Michael Hirst, a respected hotelier who runs Ladbroke's Hilton division. But the market is nervous after the Queens Moat debacle. Perhaps yesterday's violent reaction will convince Ladbroke that it does not pay to be so coy.

Ferranti

Those Ferranti shareholders who thought Mr Eugene Anderson was bluffing now know differently. The company's chief executive warned that Ferranti would go down if GEC's bid failed. Now GEC has pulled out, presumably because the due diligence process found something nasty in the woodshed. GEC investors who thought the bid more than reflected Ferranti's value may well be relieved. Lord Weinstock can now pick up interesting pieces at a one-man auction. And potential defence entrepreneurs might ponder Ferranti's folly of paying good money for hush-hush businesses when asking hard questions is considered bad manners.

China plans overhaul of tax system

Continued from Page 1

tually would be brought into line with the corporate rate.

● The imposition of a value added tax in line with international practice. VAT will be applied at a uniform rate of 17 per cent on all goods in circulation, but an additional excise will also be levied on luxury items such as cigarettes, alcohol and beauty products, along with gas and petrol.

● Personal income taxes are to be overhauled to introduce a uniform system that will apply to foreigners, Chinese citizens and a category described as "private entrepreneurs". Nine tax rates are to be imposed ranging from 5 per cent on a base income of 800 yuan ($140) a month up to 45 per cent on higher incomes.

● Special taxes will be levied on the extractive industries such as the mining of ferrous and non-ferrous metals, and what are described as "non-metallic deposits". This will be in addition to VAT.

● Charges on property transactions will also be levied, along with taxes on stock exchange dealings, inheritances and insurance. Tax laws dealing with Chinese and foreigners will be unified under a "unified personal income tax law".

Mr Zhang sought to reassure foreign investors that their tax advantages would be preserved under the new regime, but he did not go into detail.

China faces enormous difficulties collecting taxes in an economy undergoing rapid transformation. The central government lacks the mechanisms and manpower required to impose a strict regime. Another problem is a shortage of accountants.

Tax avoidance and evasion is widespread. Competition between the centre and provinces in tax collection - the two are often engaged in a fierce struggle for a share of revenues - is another factor bedevilling efforts to bolster central government coffers.

Low rise for insurance staff

Continued from Page 1

continuing reductions in inflationary pressure.

Meanwhile, industrial output figures suggested that the past year's decline is slowing. Production fell a provisional 0.4 per cent during October, according to the economics ministry.

Combined figures for September and October, a measure used to iron out short-term fluctuations, showed production up 1 per cent on July and August. Only consumer goods and food and luxury products registered declines.

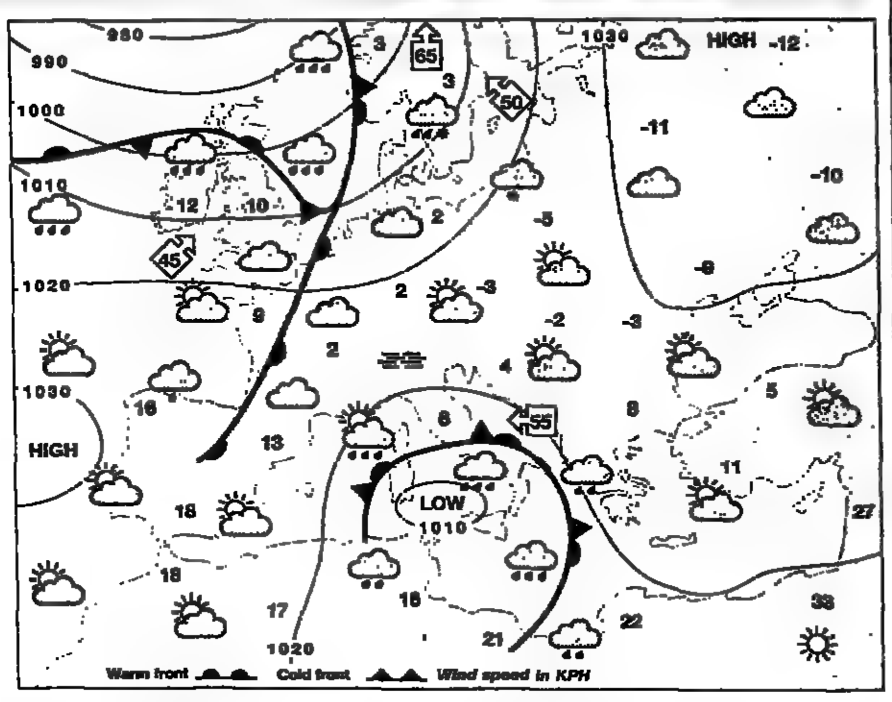
FT WORLD WEATHER

Europe today

A southerly flow between low pressure over Iceland and high pressure over the northern CIS will push wintry conditions further east. Freezing rain and snow will fall in Germany, Denmark, southern Sweden and Norway. Winds will increase to gale force on the Norwegian coast. The British Isles will be mainly cloudy with rain in the north. France and Spain will be rather cloudy and dry with sunny spells in coastal areas. Low pressure between Sardinia and Sicily will cause heavy rain in southern Italy. Elsewhere around the low pressure zone, lighter showers will fall. The Alps and the Balkans will be generally dry with sunny intervals but fog will persist in the valleys, especially in western parts. Most of the CIS will be cloudy and mainly dry.

Five-day forecast

Warm air will continue to push wintry conditions further east. During the weekend, most of north-eastern Europe will have be unsettled with significantly higher temperatures. High pressure will build during the weekend from the British Isles to the Balkans resulting in decreasing winds. Persistent low pressure near Sicily will cause heavy rainfall in southern Italy.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	37
Accra	cloudy	31
Algiers	shower	16
Amsterdam	cloudy	7
Athens	cloudy	14
B. Aires	fair	23
B'ham	shower	11
Bangkok	cloudy	34
Barcelona	fair	15
Beijing	cloudy	4

Belfast	rain	10
Belgrade	fair	0
Berlin	cloudy	2
Bermuda	cloudy	23
Bogota	fair	22
Bombay	fair	33
Brussels	cloudy	7
Budapest	fair	-2
C'hagen	shower	3
Cairo	sun	22
Cape Town	fair	23
Caracas	fair	28

Cardiff	shower	11
Chicago	shower	8
Cologne	shower	5
D' Salaam	fair	29
Dakar	fair	25
Dallas	shower	17
Delhi	fair	26
Dubai	fair	27
Dublin	cloudy	12
Dubrovnik	cloudy	14
Edinburgh	shower	10
Faro	fair	19

Frankfurt	cloudy	1
Geneva	cloudy	1
Gibraltar	fair	19
Glasgow	rain	10
Hamburg	sleet	4
Helsinki	snow	-5
Hong Kong	cloudy	23
Honolulu	fair	27
Istanbul	fair	9
Jersey	shower	9
Karachi	sun	32
Kuwait	fair	19
L. Angeles	sun	23
Las Palmas	fair	21
Lima	cloudy	23
Lisbon	fair	17
London	shower	12
Lux.bourg	cloudy	1
Lyon	cloudy	1
Madeira	fair	20
Madrid	cloudy	15
Majorca	fair	16

Malta	shower	17
Manchester	shower	11
Manila	cloudy	29
Melbourne	cloudy	27
Mexico City	fair	19
Miami	fair	26
Milan	fair	6
Montreal	fair	4
Moscow	fair	-12
Munich	fair	1
Nairobi	fair	24
Naples	shower	14
Nassau	thund	27
New York	sun	9
Nice	fair	15
Nicosia	fair	16
Oslo	sleet	1
Paris	cloudy	5
Perth	fair	24
Prague	cloudy	-1
Rangoon	fair	[illegible]
Reykjavik	rain	0

Rio	fair	32
Riyadh	fair	22
Rome	shower	14
S. Frsco	sun	18
Seoul	cloudy	5
Singapore	cloudy	29
Stockholm	sleet	1
Strasbourg	cloudy	-1
Sydney	fair	[illegible]
Tangier	fair	19
Tel Aviv	fair	22
Tokyo	cloudy	14
Toronto	shower	4
Tunis	shower	15
Vancouver	rain	7
Venice	cloudy	7
Vienna	cloudy	-1
Warsaw	fair	-5
Washington	fair	11
Wellington	cloudy	12
Winnipeg	fair	-5
Zurich	fair	0

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FINANCIAL TIMES
COMPANIES & MARKETS
Thursday December 2 1993

INSIDE

Miller announces cuts and closures

Miller Brewing Company, the US brewer, is to close a brewery in New York next year with the loss of all 900 jobs. Another 300 jobs are to be cut from its other brewing operations. Page 20

Richemont rises 10%

Richemont, the Swiss group combining the Rothmans tobacco and the Cartier and Dunhill luxury goods businesses, reported a 9.8 per cent rise in pre-tax profits to £310.9m ($460.1m) for the six months to September 30. Page 18

Meanwhile, an appeal by New Rothmans, the tobacco group, and Vendome, the luxury goods group, to have their shares included in FT-SE Actuaries share indices has been turned down. Page 24

Argyll foresees lower profits

Argyll, the UK food retailing group, warned yesterday that its profits would be reduced by about £40m ($59m) this year by its decision to start depreciating its store values. Page 18

AT&T in Chinese deal

American Telephone & Telegraph, the US telecommunications group, has announced a licencing agreement with All China Marketing Research, a subsidiary of the Chinese government's statistical bureau. Page 20

Malaysia Airlines falls 96%

Malaysia Airlines (MAS), the state controlled national airline, unveiled results for the six months to September 30 showing a 96 per cent fall in pre-tax profits. Page 21

Holiday Inn lifts Bass

A strong second half by Holiday Inn operations in the US and Asia/Pacific helped Bass, the UK brewing, hotels and leisure group, raise full-year pre-tax profits 7.4 per cent to £608m ($752m). Page 24

WPP chief sells share stake

Mr Martin Sorrell, chief executive of the WPP marketing services group, has sold about 30 per cent of his shares in the company. Page 24

Johnson Matthey raises dividend 6%

Johnson Matthey, the precious metals technology group, matched a 6 per cent rise in pre-tax profits to £35.1m ($52m) in the six months to September 30 with a similar rise in its dividend. Page 26

Bond market for farmers

Farmers should be offered 'exit bonds', acording to a study by the European Policy Forum, a London-based think tank. Farmers wishing to leave the industry could sell the bonds or if they wished to remain in farming, they could use the bond as collateral for a loan to restructure their holdings. Page 32

Companies in this Issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Bilf & Berger	870	+	25
Daimler-Benz	734	+	19.3
Holzmann Ph	898	+	25
MAN	392	+	15
Mercedes Hld	746	+	19.5
Falls			
KE Ind & Verk	562.5	−	29
NEW YORK ($)			
Rises			
America Online	67½	+	3
Chrysler	53⅞	+	1½
Disney	41⅛	+	1¾
Intel	62¾	+	1⅛
Whirlpool	61⅝	+	2⅛
Falls			
Boeing	38½	−	¼
PARIS (FFr)			
Rises			
Bancaire Cie	544	+	19
Gal Lafayette	3010	+	160
Immobanque	1000	+	41
Saint Gobain	573	+	23
UAP	639	+	26
Falls			
Sommer Allibert	1860	−	50
TOKYO (Yen)			
Rises			
Cesar	1240	+	190
Fujitsu	772	+	50
Hitachi	799	+	31
Japan Resistor	251	+	48
Nichimo	386	+	63
Falls			
Nippon Shindo	260	−	15

New York prices at 12.30pm.

LONDON (Pence)			
Rises			
Artoury	457	+	22
Burn Stewart	110	+	10
Capital Inds	124	+	21
Daily Mail A	£104	+	8½
[illegible]	401	+	38
Euro Disney	413	+	45
Gibbon Lyons	154	−	30
Kingfisher	723	−	33
Legal & Genl	541	−	20
OMI Intl	51½	+	7½
Perpetual	853	+	60
Sharelink	410	+	28
Simon Eng	96	+	7
Taunton Cider	104	+	19
Utd News	563	+	34
Vickers	152	+	11
Warburg (SG)	897	+	40
Yorks Water	585	+	25
Falls			
Argyll	256	−	23
Fife Indmar	53	−	5
Hicking Pent	193	−	14
Ladbroke	151	−	30½
Northamber	63	−	7
Radius	27	−	6

Thyssen omits payout after fall into red

By Ariane Genillard in Bonn

Thyssen, the German steel and engineering group, incurred a net loss of DM994m ($588m) in the year to September and is not paying a dividend.

The previous year Thyssen made a net profit of DM350m and shareholders received a DM6 dividend.

The company said all non-steel divisions experienced declines in sales and profits with the exception of the US Budd subsidiary, which makes automotive parts. The steel divisions suffered massive, undisclosed losses.

Operational results had improved in the second half, but earnings had been swallowed by extraordinary expenses for restructuring the steel divisions, Thyssen said.

Mr Heinz Kriwet, chief executive, launched a bitter attack against remaining state subsidies for European steelmakers, saying such hand-outs were threatening the survival of German private steel companies.

"We cannot afford a steel industry when politicians in Bonn and Brussels are unwilling to create fair competition," he said, referring to German government support for Ekostahl, a loss-making east German steel mill and to the failure of the European Commission to reach an agreement on reducing state subsidies for steel.

Sales at Thyssen Stahl, which represents a third of group turnover, fell 15 per cent to DM10.6bn. The group spent DM400m this year on restructuring Thyssen Stahl. As part of the package 15,000 workers are being shed between October 1993 and October 1994.

Talks are continuing between Thyssen and Krupp-Hoesch, Germany's second largest steelmaker, on the possibility of merging special steel activities, including tin plates, non-corrosive steels and sheets for the electrical industry.

Members of the boards of both companies are meeting on December 16 to discuss proposals ranging from managerial co-operation to full merger. Thyssen warned, however, that such talks had taken place many times over the years with no concrete results.

Among the non-steel divisions, Thyssen Industrie, the capital goods arm, recorded a 7 per cent drop in sales to DM8.1bn. Sales in the trading and services divisions were DM14.1bn, down 2 per cent. Thyssen said that in spite of the slowdown in economic activity, a "declining but satisfactory profit" was recorded in this division.

World Stock Markets, Back Page

Boeing to cut jobs and jets

By Martin Dickson in New York

Boeing, the world's largest commercial aircraft manufacturer, is to reduce production of its 737 and 747 jets next year and cut its workforce by 2,000 to 3,000 because of continued recession in the world aviation industry.

The move comes on top of a programme, announced at the start of this year, to cut production of its 737, 747, 757 and 767 jets sharply, involving the loss of some 28,000 jobs.

Mr Ron Woodard, executive vice-president of the company's commercial airplane business, said yesterday that "while there are some signs of improvement in the air travel market, losses or inadequate profits continue at many airlines.

"Until more customers are in a position to order new airplanes, we must reduce our production, as painful as that is for our employees, for our suppliers and for our communities."

Production of the 747 jumbo jet, which is now at five a month and is due to drop to three next February, will fall to two a month from January 1995.

The smaller, twin-engined 737 aircraft, now produced at 10 a month, will drop to 8.5 a month next November.

The cuts will have a significant knock-on effect on parts suppliers such as Northrop, the Los Angeles-based group which makes fuselage sections for the 747.

They will also have an impact on the economy of Seattle, Washington State, where most of Boeing's 118,000 employees are located.

Yesterday's announcement dashed hopes that Boeing could shore up its current production rates by its share of an impending order for up to 60 aircraft from Saudi, the Saudi Arabian state-run carrier, which is also being pursued by rivals McDonnell Douglas and Airbus Industrie.

That deal is likely to be the last substantial order for many months in a market which has hit all of the big three manufacturers hard.

However, Boeing's prospects seem brighter towards the end of this decade. Last month it won a $2.5bn order for 63 aircraft from Texas-based Southwest Airlines, allowing Boeing to go ahead and manufacture a new line of 737X jets which can fly further and faster than its current models.

It is also building up a healthy order book for its new 777 aircraft, which is now under development.

Shares in Boeing dropped $¼ on the New York Stock Exchange yesterday morning to stand at $38½ at lunchtime.

Euro Disney rises on false report

By Alice Rawsthorn in Paris

Shares in Euro Disney, the struggling leisure group, rose 12 per cent yesterday to close FFr4.20 higher at FFr36.45 on speculation about the progress of the negotiations over the company's emergency financial restructuring.

The rise in the shares was triggered by a report in La Tribune, a French financial newspaper, that Walt Disney, the US entertainment group that owns 49 per cent of Euro Disney, had offered to inject FFr3bn ($510m) of new capital into the company as part of the restructuring package.

However, the Disney camp said the report related to a meeting in Paris three weeks ago at which Walt Disney told Euro Disney's 60-strong banking syndicate that it would be willing to participate in a rescue rights issue. Walt Disney's share of such an issue would be roughly equivalent to FFr3bn.

Sources said there had been no formal contact between Walt Disney and the Euro Disney banks – which are owed FFr20.3bn and include Deutsche Bank, National Westminster and Citibank – since last month's meeting.

The next stage in the negotiations will be the formation of an official steering committee by the Euro Disney banks, which are presently split into two syndicates.

The steering committee is expected to be headed by Banque Nationale de Paris or Banque Indosuez, the heads of the existing syndicates.

Once the committee has been formed it will map out a negotiating strategy for the banks against Euro Disney, advised by SG Warburg in London, and Walt Disney, advised by Lazard in New York.

Meanwhile, the banks plan to commission an investigative audit of Euro Disney.

The audit will assess the company's present financial position and its capital requirements for the future.

Euro Disney's shares, which collapsed following last month's surprise announcement of a FFr5.3bn net loss for the year ended September, have risen by 18 per cent since the start of this week when they were worth FFr30.90.

World stock markets, Back Page

Robert Corzine reports on Richard Giordano's move to British Gas

Setting light to some global ambitions

Mr Richard Giordano's decision to become chairman of British Gas on January 1 suggests that the 59-year-old American, who was at one time Britain's most highly paid executive, is not about to have his career placed on the back burner.

His appointment to succeed Mr Robert Evans, the present chairman, will be as a non-executive. But British Gas have made it clear that the position will be his "main job". It carries with it a salary of £450,000 ($666,000), compared with the £380,000 paid to Mr Evans, but there will be no bonus or share options.

Mr Giordano said yesterday that he wanted British Gas to "focus on adding value for the 2m loyal shareholders and institutions" – a sentiment welcomed in the City, where analysts know him well as the former chairman and chief executive of BOC, the industrial gases group. One observer said the appointment marked British Gas's evolution, with "senior management becoming more worldly".

Few expressed fears that his non-executive status would mean a limited commitment to the job. Most said that, based on past performance, it would be out of character for Mr Giordano to take a back seat.

The former lawyer joined BOC in the late 1970s when it took over the US company Airco, of which he was president. He remains on BOC's board and other non-executive directorships include RTZ, Lucas, Reuters and Grand Metropolitan, where he will remain deputy chairman – the other posts are up for review.

The presence of a strong commercial figure at the top of British Gas should help to remove analysts' concerns that the senior management and board of directors is top heavy with insiders. Such a situation, they say, sat uncomfortably with British Gas's strategy of diversifying away from its heavily regulated business in the UK into competitive international markets.

With Mr Giordano's appointment, two of the top three positions will be occupied by executives with outside experience. Mr Cedric Brown, chief executive, has worked his way through the British Gas hierarchy. But Mr Philip Rogerson, finance director, joined British Gas from ICI last year.

The task which faces the trio is not altogether clear, however, aside from the obvious fact noted by Mr Giordano that the company is "entering a period of great change". Mr Michael Heseltine, trade and industry secretary, is expected to decide shortly on whether to implement a Monopolies and Mergers Commission recommendation that British Gas be broken up into separate trading and pipeline companies. He must also decide on whether to end its monopoly in the residential market.

Given that the government decision could be handed down as early as this month Mr Giordano's task will be not so much to influence the government's thinking on the industry as to make commercial sense of whatever official policy emerges.

Aside from adding an international gloss to British Gas, Mr Giordano will bring to bear specific skills and experience gained at BOC. Analysts point to similarities between BOC's market position in the 1980s and British Gas's current predicament. Both enjoyed a near monopoly position in a quasi-commodity domestic business. And both have chosen a strategy of international diversification with an emphasis on adding value.

An area in which Mr Giordano is likely to make an early impact is British Gas's expansion into undeveloped international markets. BOC had strong links with Asia, an area which British Gas has also targeted, both for its exploration and production possibilities as as well as for opportunities to provide gas for power generation schemes and industrial use.

Mr Giordano is also likely to have a substantial effect on a corporate culture which critics say is still steeped in the company's public sector roots. Many of Mr Giordano's boardroom colleagues are the product of a regional power structure which some analysts say has given rise to quasi-autonomous empires. "There could be a lot of friction between him and what is still in some ways a sleepy and bureaucratic company," said one.

The pace at which power becomes concentrated at British Gas's Thameside headquarters in London may be one of the best ways of assessing Mr Giordano's progress, according to one industry expert.

Company officials stress, however, that internal opinion, from Mr Brown downwards, is solidly behind the choice of Mr Giordano. "It's good to have a real heavyweight who wants to make the company more profitable," said one official.

His appointment has reduced some of the uncertainty surrounding the business, but whatever the value added by Mr Giordano, it is still the UK government which is firmly in control of British Gas's destiny.

GEC falls on profit warning and drops Ferranti rescue

By Alan Cane in London

Shares in Britain's General Electric Company, the UK's largest manufacturer, fell 13p to 320p yesterday after warning that profits this year would show little improvement over 1992.

Separately, GEC withdrew its token £11.4m ($15.6m) takeover offer for Ferranti International, the UK defence electronics group which had been trying for four years to overcome the effects of a huge fraud at International Signal and Control, the US company it bought in 1987. Receivers were appointed to Ferranti later yesterday.

Although GEC gave no explanation for its decision it had made its offer conditional on it not finding anything "materially adverse to the financial condition or prospects of Ferranti".

GEC's shares fell despite interim profits and dividends which advanced in line with analysts' forecasts. Investors had expected profits would be weighted towards the second half and was expecting about £935m in pre-tax profits for the full 12 months. Analysts yesterday cut full-year forecasts to no more than £900m.

Interim profits fell in nearly every business area, and the cables division incurred a trading loss as a result of weak demand and cheap imports.

Lord Weinstock, GEC managing director, said the company was in continuing discussions with British Aerospace, which were expected to lead to at least two joint ventures. Talks which could have led to a merger of the two groups' defence interests were called off earlier this year.

Pre-tax profits at the halfway mark were slightly up at £360m, compared with £356m, while turnover advanced 3 per cent to £4.39bn, against £4.26bn. Earnings per share inched up from 8p to 8.2p. A dividend of 2.81p will be paid, 4.85 per cent ahead of the year before.

The group's order book improved to £13bn, from £11.9bn a year earlier, while total net cash stood at £2.43bn, against £1.8bn.

In the year to March 1993, the group reported pre-tax profits of £863m on revenues of £5.6bn. Its pessimism is based on recession in mainland Europe; trading in Germany and Belgium had been particular poor, Lord Weinstock said, with France only marginally better. The company spent £499m on research and development, in the first half.

Lex, Page 16; Ferranti collapses, Page 18; GEC details, Page 24; London shares, Page 33

Ferranti loses three-year battle to stay afloat

By Paul Taylor in London

Ferranti International, the UK-based defence electronics group and high technology leader, went into receivership yesterday after Britain's General Electric Company withdrew a 1p-a-share rescue offer.

The move marks the end of a three-year battle by Mr Eugene Anderson, Ferranti's chairman since 1990, to keep the company afloat.

At its peak in the late 1980s, Ferranti had a market value of £1bn and was a major force in the global defence market, with 36,000 employees in a dozen countries and an order book worth more than £1.5bn.

Ferranti subsequently revealed, however, it had been the victim of massive fraud after buying US company International Signal and Control in 1987. Mr James Guerin, ISC's founder, who had become deputy chairman of Ferranti, is now serving a 15-year sentence for financial fraud and illegal arms sales.

The fraud, coupled with the recession and declining defence spending, hit Ferranti hard. Despite massive asset sales and job cuts which reduced the workforce to just 3,700, the group continued to post substantial losses.

Ferranti had been looking for an equity partner for several years and GEC was finally persuaded to offer a token 1p a share, or a total of £11.4m, early last month.

Yesterday, however, GEC withdrew its bid after examining Ferranti's books. Although GEC gave no explanation, it had made its offer conditional on it not finding anything "materially adverse to the financial condition or prospects of Ferranti".

Ferranti's board said in a statement that it had "invited the company's bankers to appoint receivers". The 15 banks, led by National Westminster, who are owed about £100m, appointed Mr John Talbot and Mr Murdoch McKillop of Arthur Andersen.

Ferranti's shares were suspended at 1p before the start of trading yesterday, but Ferranti's 43,000 shareholders are unlikely to receive anything. Although Ferranti had an order book of about £165m at September 30, it also has debts and other liabilities of at least £156m.

There was speculation that Ferranti was in an even worse shape than expected. But others noted that GEC will probably be able to "cherry pick" assets without having to assume Ferranti's debts.

Lex, Page 16

Argyll warns on move to depreciate stores

By Neil Buckley in London

UK food retail group Argyll warned yesterday its profits would be reduced by about £40m ($59.6m) this year by its decision to depreciate its store values. The move could knock tens of millions of pounds off other food retailers' earnings.

Argyll, which owns the Safeway, Presto and Lo-Cost chains, also admitted price competition was putting pressure on its gross profit margin, and had persuaded it to cut capital spending this year from £650m to £550m.

Its announcement came as it reported a 6 per cent increase in interim pre-tax profits to £217.3m. Stripping out £2.1m property profits, the figures were at the lower end of expectations, and the shares slid 23p to 256p.

Argyll's decision to depreciate buildings over 40 years, and review its depreciation policy on fixtures and fittings, followed growing pressure from investors.

People, Page 12; Lex, Page 16; Details, Page 23; London SE, Page 33

Ladbroke shares hit by Hilton chief uncertainty

By Michael Skapinker and Maggie Urry in London

Shares in Ladbroke fell 20½p to 151p yesterday on news that Mr Michael Hirst, head of the group's Hilton International hotel subsidiary, had sold over half his shares.

An announcement that the company would take advantage of the new foreign income dividend scheme, hitting pension fund investors, also shook the market.

Ladbroke said last night there had been "amicable discussions" with Mr Hirst about his future with the group. However, no decision had yet been reached.

The group said Mr Peter George, who takes over as group chief executive next January, had talked to Mr Hirst about bringing in a chief executive to strengthen the management of Hilton International. Mr Hirst was last night unavailable for comment.

The company announced last Tuesday that Mr Hirst had sold 125,000 shares at 161p each on 26 November. This leaves him with 115,067 shares.

Ladbroke said yesterday it would take advantage of the introduction of foreign income dividend (FID) legislation when paying its final 1993 dividend in July 1994.

A switch to paying FIDs will mean a significant loss in income to pension funds, as FIDs do not carry the 20 per cent tax credit of normal dividends and which tax-exempt investors can reclaim. Ladbroke said it was "conscious of the loss to pension funds who are investors in the company".

It attempted to calm investors by adding it believed "the Treasury will make changes to the provisions affecting pension funds in the future".

This is understood to be a reference to "streaming", under which a company could direct FIDs towards tax-paying investors and pay dividends with a tax credit to tax-exempt investors.

See Lex, Page 16; World Stock Markets

Sinking in a sea of opposition

Volvo is losing the battle against shareholders, writes Hugh Carnegy

A week ago, Volvo saw the tide turning in its struggle to win shareholder approval for the proposed merger of its car and truck operations with France's Renault. However, a flood of opposition has now engulfed the beleaguered group, threatening the deal anew.

Little has gone right since the Fourth Fund state pension fund, the second biggest Volvo shareholder after Renault, and the Folksam insurance group announced last Thursday they would support the merger.

Since then, the number of Swedish institutional shareholders opposed to the deal has grown to seven, with none joining the Fourth Fund and Folksam in the "yes" camp. Moreover, opponents made much of the narrow 8-6 majority within the board of the Fourth Fund, which undermined its symbolic importance as the "swing vote" in the merger affair.

The determination of those opposed to the deal has been hardened by the fact that the Fourth Fund vote was carried largely because of the support of the blue-collar trade unions, government officials, and the fund's chief executive who, it turned out, sits on the board of Volvo's group finance unit. These forces beat off the opposition of representatives from private industry.

The parade of senior business figures to line up against Volvo over the past few days has been impressive. The objections they have aired against the merger agreement have also shown that the Swedish opposition runs much deeper than worries about the privatisation of Renault and terms of a subsequent state golden share.

The deal's essential feature – that Volvo would sell its vehicle-making operations to Renault in exchange for a 35 per cent stake in the merged company – has, at best, been seen by critics as a too-vague valuation of Volvo and, at worst, as the unacceptable sell-out of Sweden's industrial crown jewels.

A powerful voice in the "no" camp is Mr Gunnar Johansson, a former Volvo chief executive and member of the Fourth Fund board.

"The merger," he declared, "transforms Volvo from a vehicle-manufacturer to an investment company. That cannot be right for a company whose name means 'I roll'".

Others have weighed into the public debate, notably Mr Björn Wolrath, chief executive of Skandia, the insurance company, and Mr Marcus Storch, chief executive of Aga, the industrial gas group.

"French interests will dominate the new [merged] company at all levels," said Mr Wolrath. "Volvo's engagement in the automotive industry will be limited to three executive posts on the board of [the merged holding company]," said Mr Storch. "For shareholders . . . the Volvo parent will be valued as an investment company, with a discount."

At the same time, Volvo's case has been weakened by internal developments. Both Skandia and the S-E Banken Funds, which announced its opposition yesterday, cited a growing hostility to the merger among Volvo employees, led chiefly by the engineers and white-collar workers.

"We are very concerned about the doubts among Volvo's personnel, especially the engineers," said Mr Peter Thelin, chief executive of the S-E Banken Funds. "If you don't have your employees with you going into a merger like this it will be very damaging."

Gunnar Johansson: merger would transform Volvo

Ironically, Volvo has also been a victim of its own recent success. Figures leaked this week showed the company made an operating profit of SKr460m ($54.3m) in October, more than it showed in the whole first nine months.

This has been fuel on the fire for those arguing that Volvo cars and trucks could survive without the merger, especially given the recent trend of falling profits at Renault.

Richemont defies gloom on brand names

By Ian Rodger in Zurich and Alice Rawsthorn in Paris

Richemont, the Swiss group combining the Rothmans tobacco and the Cartier and Dunhill luxury goods businesses, has defied the prevailing pessimism over branded products. It reported a 9.8 per cent rise in pre-tax profits, to £310.9m ($460.1m), for the six months to September 30.

Mr Anton Rupert, managing director, said although times were tough, his faith in brands was unshaken. "I would rather keep on supporting our brands in a recession than show a big increase in earnings," he said.

Group sales were up 13.2 per cent, to £1.7bn, but almost all of the growth came from currency gains. Net income rose by only 2.2 per cent to £96.6m, because the strong performance of Rothmans' 50 per cent-quoted companies in Malaysia and Australia led to a 29 per cent jump in deductions for minority interests.

Rothmans' worldwide cigarette volumes were 9 per cent lower, with the drop particularly pronounced in France, the UK and the former Yugoslavia.

Vendôme, the new holding company combining Dunhill and Cartier, the group's luxury goods interests, saw sales rise 15.4 per cent to £524.4m in the half year, helped substantially by favourable currency changes.

Similarly, exchange rates, combined with the impact of cost-cutting, enabled Vendôme to increase operating profits by 23.9 per cent, to £90.1m from £72.7m. However, the increase in operating profits was restricted to just 8 per cent in Swiss francs.

The strongest area of Vendôme's activity was the jewellery and pens division, which includes Cartier and Mont Blanc. The watch division suffered a 3 per cent fall in sales, and the leather goods business, which is heavily dependent on the volatile Japanese market, slipped by 11 per cent.

Operating losses on other activities rose to £8.7m from £6m. Larger losses at the satellite television network, FilmNet, in which the group has a 45 per cent stake, overwhelmed the lower profits of the US direct retailing interests.

Mr Rupert said Vendôme's sales in October were slightly below those of a year earlier. However, he forecast that both it and Rothmans would turn in satisfactory full-year results. There would be further significant costs at FilmNet.

Currency gains bolster profits at Rothmans

Favourable exchange rates lifted first-half profits of Rothmans International, the restructured tobacco group, by 11.5 per cent. The rise came in spite of a 9 per cent decline in worldwide cigarette sales, writes Philip Rawstorne.

Operating profit rose 8.6 per cent, to £212.6m ($314.6m), in the six months ended September, on net sales 12 per cent ahead at £1.22bn. Taxable profits, boosted by £29m from currency translation, rose from £209.3m to £233.4m.

Due to the complexity and timing of the group's reconstruction, a single dividend for the year will be paid next August.

Much of the overall decline in cigarette volumes was accounted for by lower sales in the UK, France, and the former Yugoslavia. Profits in western Europe were also hit by taxation changes in Germany and rationalisation costs of £16.7m, mainly in Belgium.

Operating profit in Malaysia benefited from price increases and a favourable change in the mix of brand sales. The contribution from Australia, Indonesia and the Philippines improved after last year's £9.2m exceptional costs. However, in the Philippines volumes were significantly lower due, in part, to the closure last December of Alhambra Industries.

Net investment income rose 54 per cent, from £13.5m to £20.8m.

In spite of difficult conditions in a number of markets, Lord Swaythling, chairman, said he expected satisfactory full-year trading results. Profits, however, would reflect the effects of reconstruction costs of £48m.

State urges Renault to sustain unit

By John Ridding in Paris

The French government has asked Renault to draw up plans to prolong activity at Chausson, the motor group which suspended payments in September.

Mr Gérard Longuet, industry minister, said the government was seeking to ensure the industrial future of Chausson, which is owned 50-50 by Renault, the state-owned automotive group, and Peugeot, its private-sector rival.

Mr Longuet said Peugeot's decision to stop manufacturing bodies for its 504 utility vehicle from the end of November left the fate of the company in Renault's hands.

Chausson has two factories on the outskirts of Paris, at Creil and Gennevilliers. It manufactures body parts and components for cars, including Renault's Trafic van.

Mr Longuet said rationalisation was still necessary at Chausson, which has been confronted by an increasingly difficult financial situation.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 02.12.93 | Final Prices for Trading on 04.11.93

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.29	19.07	19.07
0100	23.93	20.91	23.29
0130	23.93	24.18	26.55
0200	23.93	24.18	26.55
0230	23.63	24.18	26.56
0300	23.33	20.91	23.29
0330	23.93	18.24	18.24
0400	23.88	18.05	[illegible]
0430	23.86	18.04	18.04
0500	18.25	18.04	18.04
0530	23.88	18.08	18.08
0600	18.25	18.11	18.11
0630	18.27	18.11	18.11
0700	23.85	24.87	27.24
0730	24.88	[illegible]	28.84
0800	24.68	24.87	27.24
0830	24.89	24.87	27.24
0900	24.89	25.46	27.84
0930	24.89	27.64	30.02
1000	25.02	27.64	30.02
1030	25.02	27.64	30.02
1100	25.02	27.64	30.02
1130	25.02	28.23	30.61
1200	25.02	28.23	30.61
1230	25.02	28.23	30.61
1300	25.02	28.23	30.61
1330	25.02	25.46	27.84
1400	25.02	[illegible]	27.84
1430	[illegible]	25.46	27.84
1500	25.02	25.46	27.84
1530	25.02	25.46	27.84
1600	25.89	25.19	27.57
1630	28.02	35.57	38.11
1700	42.84	32.32	35.36
1730	43.03	42.84	45.67
1800	41.40	42.45	45.45
1830	29.12	35.77	38.33
1900	26.48	30.19	32.60
1930	26.84	29.30	31.69
2000	25.45	27.87	30.26
2030	24.79	25.72	28.10
2100	24.79	24.81	27.29
2130	24.77	24.87	27.24
2200	23.71	24.87	27.24
2230	23.42	24.05	26.42
2300	22.49	23.49	25.87
2330	18.24	18.24	18.24
2400	18.18	18.04	18.04

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg [illegible]. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone [illegible] between 8.30am and 5.15pm Monday to Friday.

TO THE HOLDERS OF
Bearer Warrants (the "Warrants") to subscribe up to ¥25,750,000,000 for shares of common stock ("Shares") of
PENTA-OCEAN CONSTRUCTION CO., LTD.
(the "Company")
issued in conjunction with U.S. $200,000,000 2 1/4 per cent. Notes 1996

NOTICE IS HEREBY GIVEN AS FOLLOWS:

The Company made by resolution of its Board of Directors dated 9th November, 1993 an issue of ¥20,000,000,000 1 1/4 per cent. Convertible Bonds 1999 (the "Bonds"). The initial conversion price per Share in respect of the Bonds was determined to be Yen 567 which was less than the current market price per Share of Yen 678.50 as determined in accordance with Clause 3(x) of the Instrument (the "Instrument") dated 6th August, 1992 constituting the Warrants. The number of Shares outstanding as at the date of issue of the Bonds was 301,318,898. As a result, the following adjustment of the Subscription Price relating to the Warrants shall be made pursuant to Clause 3(v) of the Instrument.

1. Subscription Price before adjustment: Yen 702 per Share
2. Subscription Price after adjustment: Yen 689.90 per Share
3. Effective Date of adjustment: 26th November, 1993 (Japan time)

PENTA-OCEAN CONSTRUCTION CO., LTD.
By: The Asahi Bank, Ltd., London Branch as Principal Paying Agent
2nd December, 1993

£150,000,000
HALIFAX
BUILDING SOCIETY
Floating Rate Loan Notes Due 1996 (Series A)

Interest Rate 5.5175%
Interest Period 30th November 1993 / 31st December 1993
Interest Amount due 31st December 1993 per £5,000 Note £23.43; £50,000 Note £234.30

CS First Boston Agent

US$ 20,000,000
MACQUARIE BANK LIMITED
Subordinated Floating Rate Notes due 2000

Interest Rate 4.10% p.a.
Interest Period November 30, 1993 May 31, 1994
Interest Amount due on May 31, 1994 per US$ 1,000 US$ 20.73; US$ 10,000 US$ 207.28

Banque Générale du Luxembourg
Agent Bank

INTERNATIONAL COMPANIES AND FINANCE

Record-breaking drive for Argentina's volume car makers

John Barham examines the recent revival in the industry despite low levels of investment and profit return

Once given up for dead, Argentina's car industry is recovering rapidly. Its three volume car makers, Ciadea, Autolatina and Sevel, are breaking production records almost every month and, for the first time in decades, companies are considering investing, rather than divesting, in Argentina.

GM, which pulled out of Argentina 15 years ago because of political violence and plunging sales, is investing $100m to start making pick-up trucks next year in association with Ciadea, a local company that makes Renault cars under licence.

Mr Leo Kunigk, the Brazilian organising the GM project, said GM will move part of its pick-up production from the Brazilian industrial city of Sao Paulo to Cordoba.

Output in the first year will be only 5,000 units but should build up to around 25,000 units in a year. Four-fifths of the pick-ups would be exported to Brazil, other South American markets and possibly the Middle East.

In addition Mazda is talking to its local distributor Cirlafin about a $50m venture to assemble pick-ups in Buenos Aires.

Mr Sasson Attie, Cirlafin president, says he hopes to start building 5,000 Mazda pick-ups a year towards the end of 1994, and raise output to 10,000 a year within three years. The Mazda factory, like GM's, would be equipped with imported second hand equipment.

But talks between Isuzu and Argentina's Cametal to build buses in the industrial city of Santa Fe are making little progress. A company official said "the Japanese keep saying that they're looking and studying the situation, but nothing happens. They say it's the recession in Japan, or that they are not in conditions to invest."

As for the industry as a whole, output is growing at a rapid pace. Although sales dipped 6 per cent in October, output this year should hit a record 340,000 units, one-third more than last year. Next year it is forecast to rise to 400,000 units and it should hit 500,000 units before the end of the decade.

Demand is expected to remain strong as Argentines continue to replace their obsolete cars, the average age of which is estimated to be 15 years. In addition, economic growth, forecast at 5-6 per cent a year to the end of the decade, should boost sales further.

However, Argentina, a country of only 32m people, is not the main objective of the manufacturers. The great prize is privileged access to the much bigger Brazilian market through the Mercosur common market, that takes in Paraguay and Uruguay as well as Argentina and Brazil.

Mr Alan Acosta, an analyst at Baring Securities in Argentina, said: "The size of the combined Mercosur market is estimated to be about 1.5m units a year and is expected to grow to 3m by the year 2000".

Trade in cars and parts between Brazil and Argentina was worth about $1bn last year.

Both governments require that trade be balanced. Companies based in both countries, like Autolatina, the company that manages Ford and Volkswagen in Brazil and Argentina, can meet this requirement relatively easily.

But Brazil-based GM lacks a foothold in Argentina while Ciadea has no operations in Brazil. GM, which exported about 13,600 pick-ups and small cars to Argentina last year, has trouble balancing this with imports of Ciadea's cars and vans. Building pick-ups in Argentina with Ciadea and shipping them to Brazil will make it easier to balance trade.

The government also hopes increased competition will help the local car industry to shape up. It is the only large industrial sector still benefiting from significant import barriers and will retain this protection until the end of the decade.

As a result, the industry's costs are high and investment has been low. Despite 1992 sales of $5.09bn, the industry's trade association Adefa says investments were only about $140m.

It puts investments this year at $240m. Sevel, a locally-owned company which dominates the market with Fiats and Peugeots made under licence, has invested only $160m in 1992-93, despite sales of $1.38bn in the nine months to September.

Profits are thin as well. Sevel, one of Argentina's two quoted car companies, earned $52.6m to September, a margin of just 3.8 per cent over sales. However, performance at Ciadea, where Renault transferred control to local management last year, did better, with a 7 per cent margin on sales of $1bn.

Sales across the industry are levelling off after their heady explosion following economic stabilisation in 1991. Although analysts are confident growth will remain steady in the coming years, Argentina is unlikely to repeat the days of the 1960s when it had 24 car manufacturers.

Companies and government both say Argentina cannot compete with Brazil's lower cost, high-volume car makers. They hope instead that Argentine can attract investments in more sophisticated design and component niches as well as volume production.

However, for that to happen, the industry will need a shake-up in management, a big reduction in costs, more investment and more training to raise productivity. And productivity will first have to rise to Brazil's levels and then to world levels if the industry is to survive the planned elimination of import protection in 2000.

Production line push: Domestic demand for new cars is expected to remain strong

Argentine unit sold by Eni arm

By Haig Simonian in Milan

AgipPetroli, the petroleum distribution arm of Italy's state-owned Eni energy and chemicals group, has sold its Argentine operation to local buyers for about L120bn ($70m).

The deal is part of a drive to dispose of non-core activities and raise money ahead of privatisation plans for Eni's oil and gas operations by the end of 1995.

AgipArgentina is being bought by *Yacimientos Petroliferos Fiscales*, the recently privatised Argentine state oil group which has more than 50 per cent of the local petroleum market. AgipArgentina, created in 1960, specialises in bottling and distributing liquefied natural gas and has about 700 employees with a market share of about 15 per cent.

The sale, which follows that of AgipPetroli's Steuart Petroleum subsidiary in the US this year, is part of a plan to focus on markets in Europe and south-east Asia. However, Agip will remain active in Argentina in the lubricants sector.

ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED

(Incorporated in the Republic of South Africa)

Interim results and dividend announcement

for the six months ended 30 September 1993 (unaudited)

■ Interim dividend up 5.6% at 95 cents ■ ■ Attributable earnings up 8% at R629 million ■

■ Equity accounted earnings up 16% at R1 276 million ■ ■ Encouraging signs of broadly based recovery in the local economy ■

CHAIRMAN'S REVIEW

Comment on results

Attributable earnings for the six months ended 30 September 1993 increased by 8 per cent to R629 million (271 cents per share) from R581 million (251 cents per share) for the corresponding six months of 1992. Equity accounted earnings of R1 276 million (549 cents per share) were 16 per cent higher than last year. These improvements were due largely to increased earnings from diamond and gold interests, including the realisation of surpluses on certain gold investments, partially offset by reduced contributions from other mining interests. The interim dividend was increased by 5.6 per cent from 90 cents to 95 cents per share.

Income from investments increased by 8 per cent to R690 million mainly as a result of higher dividend income from gold mining interests which comprised 34 per cent (1992: 27 per cent) of investment income. Higher dividends from diamond interests were more than offset by a fall in dividends from platinum and base metal investments. For the South African gold industry, in the first six months of 1993 the average spot gold price increased by 11 per cent to R35 034 per kilogram over the same period in 1992 and gold production increased marginally as a result of an improvement in the average grade of ore mined. Accordingly, assisted by continuing cost containment measures, gold industry earnings improved compared with the half year to June 1992.

Trading income decreased by 12 per cent to R201 million from R229 million as a result of the decline in the operating profit of Anglo American Coal Corporation (Amcoal), a 51.8 per cent subsidiary. This decline was caused by a further softening in US dollar export prices and arose notwithstanding the higher volume of export sales, the weaker rand/US dollar exchange rate, the containment of working costs and improved profit on higher sales to Eskom. A surplus on realisation of investments of R68 million (1992: R11 million) was generated by the sale by Anglo American Gold Investment Company (Amgold), a 50.5 per cent subsidiary, of certain gold investments which are being replaced by shares in longer life gold mines. Other net income declined from R47 million to R19 million as a result of lower net interest and net fee income, partially offset by a further reduction in prospecting costs. Taxation fell by R29 million to R121 million largely because of Amcoal's reduced profits, while outside shareholders' interest in net income increased by R31 milbon to R228 million reflecting their share of Amgold's improved dividend income and surpluses on realisation of investments. Accordingly attributable earnings increased by 8 per cent to R629 million.

Retained earnings of associates, which are transferred to non-distributable reserves, rose by 24 per cent to R647 million. Earnings from diamond interests which are experiencing better trading conditions were a major component of this increase, while there were also improved earnings from certain industrial, financial services, and offshore associates. As a result, equity accounted earnings were 16 per cent higher than for the comparative period.

The R115 million extraordinary surplus (1992: R19 million deficit) relates almost entirely to the Corporation's share of extraordinary items of a number of its associates.

Net asset value per share has increased by 33% to 17 242 cents per share from 12 994 at 30 September 1992.

Business developments

The reorganisation of the Corporation's international assets was the major feature in the last six months. The welcome re-entry of South Africa into the world community made it possible to rationalise the way in which Anglo American and Minorco hold their interests around the world.

The Corporation has transferred substantially all of its international investments – as have its associates who held participations in these investments – so that these are now consolidated as predominantly wholly owned or controlled (including jointly controlled) business groupings in the enlarged Minorco which has net assets of US $5.5 billion. This consolidation under Minorco will eliminate unnecessary duplication and inefficiencies, and provide a structure and focus which will bring benefit to all Minorco shareholders, including the Corporation and its associates. A technical services agreement will ensure that the wide ranging and in-depth technical experience that the Corporation has developed over the years will be available to Minorco, and that the Corporation's employees will continue to have significant international exposure.

The investments which the Corporation itself transferred were valued at US$791 million for the purposes of the transaction and were exchanged for approximately 30.2 million new Minorco shares and approximately 64 per cent of Minorco's African assets. The Group's consolidated shareholding in Minorco has been increased from 39.3 per cent to 45.8 per cent of Minorco's enlarged share capital, of which 2.7 per cent is held by Amgold, while the public will continue to hold some 25 per cent of the enlarged Minorco. The transaction, which took place in the second six months of the financial year, will have no material effect on the earnings or net assets of the Corporation.

With the acquisition of Minorco's Zambian and Zimbabwean assets the Corporation will use its long experience of these countries to review opportunities for investments as Zambia and Zimbabwe evolve into market economies, and use its African experience to open up opportunities further afield on the continent. Results of the feasibility study of the Sadiola Hill project in Mali for the open cast mining of gold have been positive and an application has been made to the government for an exploitation permit. Associate De Beers is pursuing mining opportunities in Ghana and Tanzania arising out of local reforms and privatisation programmes.

Political developments

The Interim Constitution agreed on 18 November, although by no means a perfect document, represents a major achievement in South Africa's progress toward the market democracy status for which the Corporation has striven for so many decades. The five year government of national unity, to be instituted after the elections on 27 April 1994, will give the country the best chance of creating the political and economic stability required for growth and broadly based development.

The substantive nature of the accomplishment has been given welcome international recognition in the form of the ending of virtually all remaining sanctions, particularly by the United States, and by the award of the Nobel Peace Prize to the two major architects of South Africa's transition away from apartheid, President F W de Klerk and Dr Nelson Mandela, president of the African National Congress.

Much remains to be done to ensure that the implementation of the constitutional package allows a smooth and peaceful run up to the 27 April elections. In particular, continued efforts must be made by all parties to ensure that the Inkatha Freedom Party and the Conservative Party and other non-participating parties rejoin the process and contest the elections.

The fostering of democratic attitudes and behaviour by political parties remains the essential ingredient without which the Constitution and the Bill of Rights will be stillborn. Business, which has long called for the political changes now on the brink of completion, is determined that the transition should be carried through successfully and in all its actions will be supportive of the wider process.

Economic developments and prospects

Economic developments over the last half year give reason for a more positive outlook. Not only has the performance of the economy signalled that South Africa's four year recession has ended, with significant growth figures for the first three quarters of 1993 being registered, but continued good rains, sustained lower inflation, a cut in interest rates and good export performances have positioned the economy well to take advantage of the modest improvements in the international economy now in prospect.

A further boost to confidence has been provided by the promise of a US$850 million IMF drought relief facility which will help underpin foreign reserves, and by an inflow of foreign investment into the South African equity and bond markets.

These outcomes have been stimulated by further progress towards achieving an economic policy consensus in South Africa, as well as by political progress. The National Economic Forum has been central to this achievement which has found practical effect, for example, in a common approach between business, labour and government to South Africa's applications to GATT and the IMF.

I am especially pleased to report that the debate on unbundling and anti-trust, to which considerable attention was devoted in my annual statement this year, has developed in a rational and co-operative spirit amongst the participants.

The Corporation's results for the year ending 31 March 1994 are expected to show a similar pattern to those results recorded in the first six months, before taking account of the abnormal deferred tax credit of R114 million which benefited last year's attributable and equity accounted earnings

Directorate

Following the completion of the transaction with Minorco, Mr P C D Burnell and Mr A W Lea, Executive Directors of Minorco, and Mr T C A Wadeson, Technical Director of Minorco, have joined the Board. In addition, Mr A D Deuchar has been appointed a Director.

Mr D G Nicholson and Mr P J R Leyden, who retired from Corporation employment in 1992, have now retired from the Board.

J Ogilvie Thompson
Chairman

30 November 1993

ABRIDGED CONSOLIDATED INCOME STATEMENT

(R million)	Six months ended 30.9.93	Six months ended 30.9.92	Year ended 31.3.93
Net income			
– investments	690	641	1 466
– trading	201	229	484
– surplus on realisation of investments	68	11	46
– other	19	47	124
Net income before taxation	978	928	2 120
Taxation	121	150	266
Net income after taxation	857	778	1 854
Attributable to outside shareholders	228	197	436
Attributable earnings before abnormal item	629	581	1 418
Abnormal item	–	–	114
Attributable earnings after abnormal item	629	581	1 532
Retained earnings of associated companies	647	523	929
Equity accounted earnings	1 276	1 104	2 461
Extraordinary items	113	(19)	(71)
Earnings after extraordinary items	1 389	1 085	2 390
Transfer to non-distributable reserve	771	505	902
Available for distribution	618	580	1 488
Dividends	221	209	801
Retained earnings	397	371	687
Earnings per share – cents			
– attributable earnings			
– before abnormal item	271	251	611
– after abnormal item	271	251	660
– equity accounted earnings	549	476	1 060
Dividends per share – cents	95	90	345
Dividend cover			
– attributable earnings			
– before abnormal item	2.85	2.79	1.77
– after abnormal item	2.85	2.79	1.91
– equity accounted earnings	5.78	5.29	3.07

ABRIDGED CONSOLIDATED BALANCE SHEET

(R million)	At 30.9.93	At 30.9.92	At 31.3.93
Shareholders' equity	19 558	17 510	18 304
Outside shareholders' interests in subsidiary companies	2 244	1 990	2 230
Deferred tax benefit	830	970	836
Loans from associated companies and others	2 821	1 954	1 711
Other liabilities	1 689	1 456	1 811
	27 142	23 880	24 892
Represented by:			
Investments	19 044	16 693	17 811
Fixed assets	3 946	3 563	3 835
Inventories and accounts receivable	1 205	1 238	1 475
Deposits and cash	2 947	2 386	1 771
	27 142	23 880	24 892
Number of shares in issue – millions	232	232	232
Net asset value per share – cents (After providing for dividend and based on the market value of listed investments at 30 September 1993 and the Directors' valuation of unlisted investments at 31 March 1993).	17 242	12 994	15 392

DIVIDEND

Dividend No. 115 of 95 cents per share has been declared payable on **Friday 14 January 1994** to shareholders registered at the close of business on **Friday 17 December 1993**. The register of members will be closed from **Saturday 18 December 1993** to **Friday 24 December 1993** inclusive. *The full conditions relating to the dividend may be inspected at the Johannesburg and London offices of the Corporation and its transfer secretaries.*

The full interim report has been posted to shareholders and is available from Consolidated Share Registrars, 1st Floor, Edura, 40 Commissioner Street, Johannesburg 2001 (P.O. Box 61051, Marshalltown 2107) and from the Corporation's London office.

Registered office:
44 Main Street
Johannesburg 2001

London office:
19 Charterhouse Street
London EC1N 6QP

MONTHLY AVERAGES OF STOCK INDICES

	November	October	September	August
FT-SE Actuaries Indices				
100 Index	3111.6	3126.1	3028.1	3019.3
Mid 250	3456.2	3493.1	3450.2	3441.3
350 Share	1550.7	1559.6	1517.8	1513.5
Industrial Group	1537.23	1549.16	1526.91	1518.58
800 Share	1643.34	1653.67	1623.43	1614.52
Financial Group	1192.41	1202.11	1130.84	1130.74
All-Share	1535.11	1544.81	1505.08	1498.55
Eurotrack 100	1349.68	1339.43	1279.00	1284.68
Eurotrack 200	1414.20	1412.29	1358.56	1365.85
FT Indices				
Government Securities	103.12	102.80	101.97	101.35
Fixed Interest	123.87	124.22	123.75	122.70
Ordinary	2357.9	2363.6	2348.4	2371.0
Gold Mines	238.5	210.2	171.2	205.5
SEAQ Bargains	29,057	32,100	29,485	38,713

	Highest Nov close	Lowest Nov close
FT-SE 100	3166.9 (30th)	3057.2 (24th)
FT-SE Mid 250	3522.3 (2nd)	3416.5 (15th)
FT-SE A 350	1577.6 (1st)	1530.9 (24th)
FT-A All-Share	1562.30 (2nd)	1515.21 (24th)
Ordinary	2418.5 (30th)	2325.3 (8th)

US groups in PC/TV link

By Louise Kehoe in San Francisco

Intel and General Instrument of the US have jointly developed new high-speed communications devices linking personal computers to cable TV networks to provide a broad array of information services.

The technology can transform a cable TV network into a data pipeway to the home, delivering information 1,000 times faster than via standard telephone lines, the companies said.

The development is the latest evidence of the rapid convergence of computer, communications and consumer electronics technologies.

Intel is the world's biggest maker of computer chips and General Instrument is a leading designer of TV set-top devices for cable TV systems.

Both companies are also developing technologies that will upgrade television sets so they become terminals for interactive information services but personal computers are more likely to lead the way toward broad use of home information services, the companies said.

"The much touted congruence of high-speed communications and computing will intersect at the PC long before anywhere else," said Mr Andrew Grove, Intel's chief executive.

Approximately 24m US households now own at least one PC, while 60m US homes are linked to cable TV networks.

"This breakthrough could open up a vast new market of home PC-based on-line services that cable system operators could provide with minimal capital investment," said Mr Daniel F. Akerson, chairman and chief executive of General Instrument.

Two leading cable system operators, Comcast and Viacom International, are planning to field-test the technology next year. America On-Line and Prodigy, two leading on-line information service providers, said they would participate in the trials.

The Viacom test will take place in Castro Valley, California, where 500 homes will initially be provided with modems to link PCs to on-line information services, on-line games, and software distribution. Details of the Comcast trial were not available.

Further blurring the lines between television and computer services, America On-Line said it would also team up with General Instrument to develop services for interactive television in 1994.

Montedison refinancing approved

By Haig Simonian in Milan

Montedison, the Italian industrial group controlled by the debt-ridden Ferruzzi Finanziaria (Ferfin) holding company, yesterday got the green light from shareholders for an ambitious recapitalisation.

Approval for the scheme, part of the wider rescue package for the entire Ferruzzi group, followed Tuesday's go-ahead from Ferfin shareholders for its own financial restructuring.

The plan for Montedison, which controls the Montecatini chemicals group as well as Edison (energy) and Eridania Béghin-Say (sugar) envisages raising L5,172bn ($3bn) by a mixture of new shares and warrants.

Montedison's board also gained approval to raise a further (nominal) L1,000bn in new shares and L500bn in bonds over the next 18 months.

Mr Guido Rossi, chairman, said Montedison expected to raise about L3,629bn over the next five years from disposals, which would also reduce its debt burden by about L150bn.

He gave no indication as to when the group might finalise "Project Sophia", its ambitious joint venture in polyethelenes and polypropelenes with Shell. The new company due to be formed would be the world's leading supplier of such materials.

AT&T to cut workforce in long-distance business

By Martin Dickson in New York

American Telephone & Telegraph, the US telecommunications group, yesterday confirmed it needed to cut jobs in its consumer long-distance business, where it faces strong competition from rivals such as MCI Communications.

In a separate move, the company said it had signed a licencing agreement with All China Marketing Research, a subsidiary of the Chinese government's statistical bureau, to commercialise and market worldwide a database containing information on more than 400,000 Chinese companies.

Responding to reports that it could be planning to cut several thousand jobs in its consumer long-distance business, AT&T acknowledged it needed to reduce costs significantly.

It said it would take every initiative to do so before resorting to job cuts but believed some reduction in employment would be necessary. It expected that a significant portion would come through attrition, voluntary separation and retraining.

AT&T's consumer business, which employs some 32,000 people, is still the largest in the US, accounting for some 60 per cent of long-distance telephone calls.

It has, however, been losing market share to smaller rivals, notably MCI, whose innovative marketing programmes have led to a growth rate of around 15 per cent a year, three times the industry average.

Mr Joseph Nacchio, who took over as head of the consumer business three months ago, has a reputation as a cost cutter, and has promised to make AT&T a much more effective marketer of services.

The deal with China follows AT&T's signing of a memorandum of understanding with the Republic last February to explore business opportunities.

Eastgate Services, an information consulting arm of AT&T Bell Laboratories, will publish an English language directory of the industrial database and licence it to third parties internationally.

Miller Brewing to close brewery and shed 1,200 jobs

By Richard Tomkins in New York

Miller Brewing Company, the second biggest brewer in the US, yesterday announced it was to close its Fulton brewery in upstate New York next year with the loss of all 900 jobs. Another 300 jobs are to be cut from its other brewing operations.

The company is owned by Philip Morris, the US cigarette, food and brewing group, which last Wednesday outlined plans to cut 14,000 jobs as part of a worldwide restructuring aimed at defending its brands against price competition.

Two days later Philip Morris detailed the first of the cuts when it announced that 800 hourly-paid and 100 salaried employees would be cut from the workforce of its cigarette manufacturing operations in Richmond, Virginia.

Miller Brewing Company, which makes Miller Lite, the world's top-selling low-calorie beer, employs 9,000. It has been struggling in the face of stagnant beer sales in its domestic market caused partly by a doubling of the federal excise tax.

Mr John MacDonough, the subsidiary's chairman and chief executive, said Miller had more production capacity than it needed and the cost of retaining it could not be justified in an extremely competitive environment.

"By closing our Fulton brewery, we would be able to eliminate significant fixed expenses while still meeting demand in the north-eastern US through production at our other eastern plants," he said.

The brewery will be closed in two phases next year: the first on January 31 and the second by October 1.

Production will be transferred to Miller breweries in Eden, North Carolina; Albany, Georgia; and Trenton, Ohio.

The remaining 300 jobs to go are salaried posts at Miller's Milwaukee, Wisconsin, headquarters and six other breweries.

Chemicals stake pushes Seagram into the red

By Bernard Simon in Toronto

Seagram, the international drinks group, was pushed into the red in the third quarter by losses stemming from its stake in Du Pont, the US chemicals producer.

The net loss for the three months to October 31 was US$100m, or 27 cents a share, compared with earnings of $166m, or 44 cents a share, a year earlier.

The latest figure includes a $239m loss, equal to 64 cents a share, resulting from non-recurring charges taken by Du Pont, in which Seagram has a 24 per cent interest.

Revenues dipped to $1.41bn from $1.45bn, due to a $85m foreign exchange loss, while operating income was virtually unchanged at $197m, compared to $195m.

Income of the wine and spirits group, accounting for over 90 per cent of the total, was unchanged. Weak sales in Europe, Seagram's biggest single market, were offset by a strong performance by Chivas Regal whisky and Martell cognac in south-east Asia and Latin America.

Tropicana, the fruit juice maker, boosted operating income by 14 per cent to $25m, due to higher market share in the US orange juice market and improved international results.

Earnings for the first nine months, excluding accounting changes, fell to $232m, or 62 cents a share, from $428m, or $1.14 a share.

● Pepsi-Cola Canada will cut prices in a corporate strategy that the company described as "an all-out assault", AP-DJ reports from Toronto.

Pepsi Canada said it would continue to streamline operations and administrative procedures and "enhance its competitiveness by eliminating activities which do not directly add value to its products, consumers and retail customers".

هكذا من الأصل

INTERNATIONAL COMPANIES AND FINANCE

MAS interim profit falls 96%

By Kieran Cooke in Kuala Lumpur

Malaysia Airlines (MAS), the state-controlled national airline, continues to battle financial problems, with results for the six months to September 30 revealing a 96 per cent fall in pre-tax profits.

MAS made pre-tax profits in the period of M$6.4m ($2.5m), compared with M$153m in the same period last year, although turnover rose 4 per cent to M$2.02bn.

Analysts point out that MAS would be in the red but for a change in accounting policy which cut aircraft depreciation charges, thereby adding M$31m to operating profits.

The analysts say MAS is paying the price for an ambitious fleet expansion programme launched three years ago just as the worldwide airline industry was heading into recession.

In the course of its present five year plan to 1996-97 MAS has orders for 72 aircraft costing a total of M$10.6bn.

MAS, partially privatised in the mid-1980s but still more than 60 per cent controlled by various state bodies, now has excess capacity on many of its routes.

In the past MAS has benefited from cash generated by aircraft sales. Such sales have then been incorporated into pre-tax profits. But in the six-month period MAS was unable to sell any aircraft, adding both to its financial difficulties and its excess capacity problems.

While MAS has managed to defer delivery on some aircraft the financial position of the carrier is likely to come under increasing pressure in the short term with 10 new aircraft due for delivery over the next six months.

The Malaysian government has also announced plans for a second carrier which could take business away from MAS on domestic and regional routes.

"MAS expanded into a recession in the world aviation business," said one industry observer. "It got carried away in the general euphoria about economic growth in the south-east Asia region.

"But it's clear airlines in this part of the world are not immune from the problems of the world economy. MAS looks set for a couple of very tough years."

Despite the generally gloomy assessment of MAS' prospects, the carrier's shares have been trading at all-time highs on the Kuala Lumpur stock exchange in recent weeks.

Analysts say there have been rumours that Bank Negara, the Malaysia central bank, will sell some or all of its 40 per cent shareholding in MAS.

But so far there has been nothing to substantiate the reports.

● State-run Pakistan International Airlines (PIA) said it earned a profit of Rs312m ($9.9m) in the year to last June, showing a decline of more than 70 per cent over the previous year, Reuter reports from Islamabad.

Revenue of about Rs22bn was 7.45 per cent up on 1991-92, when the profit was put at Rs1.1bn. PIA's operating income declined to Rs623m from Rs1.58bn in 1991-92, it said.

Directors blamed the decrease mainly on global recession, introduction of an open-sky policy by the Pakistani government allowing freer access by foreign airlines and new domestic privately owned airlines.

Price fall hits Siam Cement figures

By William Barnes in Bangkok

A 15 per cent fall in domestic wholesale cement prices has hurt profits at Siam Cement, Thailand's largest conglomerate and building materials supplier. Unconsolidated third-quarter net earnings slid 28 per cent to Bt694m ($27m).

Net profits for the first nine months were 38 per cent lower at Bt2.22bn. Many stockbrokers now think full-year consolidated earnings will dip to Bt3bn from 1992's Bt3.96bn.

Mr Hayden Meadows, of Baring Research in Bangkok, said the company's aggressive depreciation policy – capital values over five years – along with heavy interest charges distorted the figures.

"Operational results have been better than expected because the demand for cement has picked up," he said.

Two-thirds of Siam Cement's revenue comes from cement and construction material sales. Good returns from steel and machinery and electricals subsidiaries boosted Siam Cement's consolidated third-quarter earnings by 2 per cent to Bt1.03bn from Bt1.011bn. The nine-month consolidated profit was down 29 per cent to Bt2.58bn.

● Siam City Cement, Thailand's second-largest cement company, reported consolidated net earnings for the first time at Bt354m, a 2 per cent rise over last year's parent company only figures. Nine-month consolidated profits were Bt1.38bn.

Analysts are forecasting full-year earnings of Bt1.6bn, compared with Bt1.24bn in 1992.

Anglo American lifts dividend

By Philip Gawith in Johannesburg

Improved earnings from diamond and gold investments helped Anglo American Corporation, South Africa's largest company, increase attributable first-half earnings by 8 per cent to R629m ($172m) from R581m a year ago.

Earnings per share rose to 271 cents from 251 cents and the interim dividend was increased to 95 cents from 90 cents a share.

Mr Julian Ogilvie Thompson, chairman, predicted that full-year results would show a similar pattern to those recorded in the first half.

Commenting on the political backdrop to the group's performance, Mr Ogilvie Thompson welcomed the interim constitution agreed last month, describing it as a "major achievement" in the country's progress towards "market democracy status". He also described the five-year government of national unity, which will follow next April's election, as offering "the best chance of creating the political and economic stability required for growth and broadly based development".

Mr Ogilvie Thompson also said the economic outlook was more positive. Not only has the country's four-year recession ended, but the economic policy debate has produced considerable consensus. He stressed particularly progress made on the anti-trust debate – where Anglo is normally the prime target on account of its size – which had developed "in a rational and co-operative spirit".

On the operating side, investment income rose to R690m from R641m mainly as a result of higher dividends from Anglo's gold interests. Higher dividends from diamonds were offset by weak performances from platinum and base metal interests.

Trading income fell by 12 per cent to R201m because of the fall in operating profit at Amcoal.

A R88m surplus on the realisation of certain gold investments helped lift pre-tax income to R978m from R928m.

Record subscription for Kunming Machine Tool

By Simon Davies in Hong Kong

Kunming Machine Tool Company, the sixth Chinese state corporation to launch its flotation on the Hong Kong stock market, has become the second most heavily subscribed new issue in the colony's stock market history.

The HK$128.7m H share offer for the company was 628 times oversubscribed, attracting HK$81.7bn (US$10.6bn) in public money. The largest oversubscription was in February, when Chinese car manufacturer Denway pulled in HK$240bn.

The offer closed on Friday, in a nervous stock market and amid increasing concerns over the lack of agreement between Britain and China over the colony's political future. It demonstrates the continued enthusiasm for companies profiting from the rapid restructuring of China's economy.

Kunming Machine Tool, founded in 1936, has developed into the market leader within a niche industry, despite its location in the capital of one of China's poorest provinces. About 32 per cent of its orders are in China, servicing the manufacturing, transportation, energy, aerospace and electronic industries.

The company is on a strong growth track, with profits forecast to increase from Yn16.4m ($2.8m) to Yn31m, putting the shares on a fully diluted prospective price-earnings ratio of 10.6, a substantial discount to the blue chip Hang Seng Index average of more than 15.

Support for the issue was fuelled by the performance of the previous five H share flotations. When the Kunming Machine Tool offer closed, the average increase in share price for the previous five H share offers was 103 per cent.

NEWS IN BRIEF

NZ bank to raise NZ$200m in flotation

Trust Bank New Zealand, the country's fifth biggest bank, is to raise up to NZ$200m (US$109m) in a public flotation early next year, writes Terry Hall in Wellington.

There has been speculation that it intends to use the money to buy Countrywide Bank, the country's sixth-largest retail bank, from Bank of Scotland. Trust Bank is the largest New Zealand-owned and controlled bank, formed by the merger of nine regional savings banks in the late 1980s.

Chief executive Mr Graeme Pentecost said yesterday there are no specific plans. However, ANZ McCaughan Securities analyst Mr Hugh Amundsen said the funds being raised were well above what the bank needed for its capital ratios, and suggested the capital may be used to buy Countrywide Bank.

Mixed results for Indian group

Grasim Industries, India's largest producer of viscose staple fibre, blamed a bumper cotton crop for a 17 per cent decline in net profits to Rs598m ($19m) in the six months to December, writes RC Murty in Bombay.

Another company in the Adita Birla group, Hindalco Indutrie, a primary aluminium producer, saw profits slip 10 per cent to Rs545.7m, but a third, Indian Rayon and Industries, posted a 30 per cent rise to Rs340m.

Indian steel group squeezed

By R C Murthy in Bombay

Essar Gujarat, the flagship company of India's Essar group, saw first-half margins squeezed by recession in the steel industry and by cheap imports of scrap steel.

Sales jumped by more than four-fifths in the first half to September to Rs3.7bn from Rs2.45bn in the same period last year.

Net profits in the six months, however, rose by only one-third to Rs827.3m ($26.3m) from Rs700m a year ago.

Mahindra GDR issue meets strong demand

By Shiraz Sidhva in New Delhi

Mahindra and Mahindra the Indian truck manufacturer, yesterday said that its $65m global depositary receipt (GDR) offer, was nearly eight and a half times oversubscribed with a demand of over $550m.

The Euroissue was the first Indian GDR offering without warrants to be priced with no discount to the ruling market price. Mahindra's GDRs were priced at $7.44, the equivalent of Rs232.50, which was the closing price of the company's equity share on the Bombay stock market on November 25. The issue was priced five days earlier than expected, to avoid further demand.

Banque Paribas, lead managers, will exercise an option to increase the issue to approximately $75m. coThe Mahindra family purchased part of the equity, to maintain their 32 per cent stake. The money will be used to expand and modernise production.

Post-Budget rally continues in London

By Conner Middelmann in London and Frank McGurty in New York

UK gilts continued their post-Budget rally, rising by about 1½ points at the ultra-long end and outperforming most continental European bond markets.

The market has been cheered by the chancellor of the exchequer's forecasts of a declining Public Sector Borrowing Requirement, his larger than expected spending cuts and his optimistic inflation forecasts.

Long maturities posted the biggest gains, with the yield on the 25-year benchmark nudging against the key 6.75 per cent barrier. The March long gilt futures contract rose by $1\frac{3}{32}$ on the day to $117\frac{1}{32}$.

Some traders warned the market could correct ahead of Wednesday's auction of £3bn of 6.75 per cent gilts due 2004. "The market doesn't want to own new paper at this level," said a gilts trader at a large UK bank. "I expect to see a decent correction before the auction."

But so far, "there's been no sign of profit-taking, and it would be dangerous to be short right now," said Mr Adrian James, European bond analyst with NatWest Markets.

Gilts' yield spread over other European bonds narrowed dramatically. The 10-year gap over German bunds dropped to 76 basis points, from 96 before the budget. At the ultra-long end, the UK 25-year yield gap over the French 30-year benchmark dropped even more sharply, to some 17 basis points from 44 two days ago.

■ German government bonds edged higher in thin trading as dealers looked to today's meeting of the Bundesbank.

In the morning, hopes of a cut in official interest rates were fuelled by rumours – later denied by the Bundesbank – that it would announce a significant downward revision in Germany's October M3 money supply numbers today. But towards the close, the majority of dealers expected no change in rates today.

GOVERNMENT BONDS

The December Bund futures contract on Liffe ended at 99.92, up 0.15 points.

■ French bonds traded largely in line with bunds. The December notional bond future ended at 124.20, up 0.20 points.

■ In the Dutch market, traders are looking to Friday's likely announcement of the first government bond issue in the 1994 calendar. Most dealers are calling for new 10-year bonds with a coupon of around 5¾ per cent. "There's a real supply shortage in that sector – we haven't had any 10-year paper since March," said a trader.

■ Japanese bonds gave up some of their recent gains but remained relatively well supported by hopes for further interest rate cuts to boost the flagging economy.

Amid hopes for another cut in the 1.75 per cent Official Discount Rate, the key three-month certificate of deposit rate plunged to 2.08 per cent from 2.22 per cent on Tuesday and 2.31 per cent a week ago.

■ Braced for a further sign of surging economic growth, the US Treasury market breathed a sigh of relief when an important indicator of business activity showed only a moderate advance.

By midday the benchmark 30-year government bond was $\frac{1}{32}$ higher at $99\frac{25}{32}$ to yield 6.265 per cent. At the short end, the two-year note was unchanged at $100\frac{1}{32}$, yielding 4.20 per cent.

Early trading was listless as the market awaited the November business activity report from the National Association of Purchasing Management. Traders were expecting the worst after a jump in the Chicago index of purchasing managers caught them by surprise during the previous session and sent prices tumbling.

In the event, the national index advanced only moderately to 55.7 per cent from October's 53.8 per cent. The market took the figure in its stride, as concerns over inflation eased somewhat.

Another source of encouragement was a revision in the Commerce Department's estimate of gross domestic product in the third quarter to a seasonally adjusted annual rate of 2.7 per cent growth from an earlier estimate of 2.8 per cent.

Austrian agency adds to unsold DM mountain

By Antonia Sharpe

The Eurobond market let out a collective groan yesterday as a further DM800m piled on to the mountain of unsold, D-Mark Eurobonds with maturities of more than 10 years.

INTERNATIONAL BONDS

Asfinag, an Austrian government-guaranteed agency, raised DM500m through an offering of 20-year Eurobonds while the German state of North Rhein-Westphalia launched a DM200m issue of 25-year Eurobonds which are puttable after 10 years.

"There is far too much supply of long-dated paper but no demand from investors," said one syndicate manager who was involved in the Asfinag deal.

Sales of Asfinag's bonds were reported to be slow, reflecting a view in the market that they were expensive compared with other long-dated issues. The bonds remained in syndicate overnight but were expected to be freed to trade today.

Asfinag's bonds were priced to yield 51 basis points over the 6 per cent German government bond due 2003, which was virtually the same as the current yield spread on LKB Baden Württemberg's 15-year Eurobonds. Some syndicate managers said that the yield spread on Asfinag's bonds should have been at least eight basis points wider.

Late in the day, the German state of Schleswig-Holstein came with a DM300m issue of 10-year Eurobonds which provide investors with an option to extend the maturity by a further 10 years and receive a higher coupon. "This is a new structure which turns the puttable bond on its head," said lead manager J.P. Morgan in Frankfurt.

Merck, the largest pharmaceuticals group in the US, could provide some sparkle to a jaded Eurobond market today when it raises $250m through its first Eurobond offering.

The five-year bonds, via Morgan Stanley, are likely to be priced to yield around 15 basis points over US Treasuries.

The tight yield spread reflects the borrower's triple-A rating and the scarcity of corporate issuance in the Eurobond market.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
NTS Steel(a)§	100	(4-4¼)	100.00	Dec.2008	undecl.	-	Jardine Fleming
Toyo Construction Co.‡	100	(b)	100.00R	Dec.1998	0.30R	-	Sanwa International
D-MARKS							
Asfinag	500	6.00	95.875R	Dec.2013	0.50R	+51 (6%-03)	BayernVerein,SBC,Warburg
State of Schleswig-Holstein(c)	300	6.00	99.225R	Jan.2004	0.325R	-	JP Morgan, Frankfurt
Deutsche Ausgleichsbank	300	6.00	99.50R	Jan.2004	0.325R	+22 (6%-03)	SBC (Germany)
State Nth.Rhein Westphalia(d)	200	(d)	100.15R	Dec.2018	0.325R	-	Merrill Lynch Bank
STERLING							
Robert Fleming Intl.Fin.(e)	100	9.25	99.206R	undated	0.75R	+235(8¾%-17)	Hoare Govett/ R.Fleming
GUILDERS							
Dutch Railways	300	5.875	99.90R	Dec.2003	0.25R	+8½ (5½%-03)	ABN Amro Bank
Bayerische Hypobank	300	6.125	100.00R	Jan.2004	0.30R	+32 (5½%-03)	Rabobank Nederland

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) Conversion premium indicated at 18-22%. Callable, subject to 140% rule, after 3 years at accreted value and after 10 years at par. Puttable in 10 years to yield 150-175bp over Treasuries. b) Coupon pays 6-month Libor + 0.275%. c) Extendable after 10 years with coupon of 6¾% and after 15 years with coupon of 6⅞%. d) 6¼% coupon for 1st 10 years and 7% thereafter. Puttable on any coupon payment date from 21/12/03 at par. e) Short 1st coupon. Callable from 25/3/24 and every 15 years thereafter at par.

UK tops November government bond league

By Sara Webb

Gilts were the top performing government bonds last month showing a return of 2.15 per cent in local currency terms, followed by Japanese government bonds (with gains of 2.07 per cent) and Belgian government debt (2.05 per cent), according to figures compiled by J.P. Morgan Securities.

The UK government bond market was boosted by favourable inflation news and a 0.5 percentage point cut in the base rate to 5.5 per cent a week ahead of the Budget. Gilt returns since the start of the year have amounted to 17.76 per cent.

Continuing signs of economic weakness and a sharp fall in the Tokyo stock market fuelled hopes of an easing in interest rates by the Bank of Japan and drove the Japanese government bond market higher last month.

Among continental European bond markets, Belgium turned in the strongest performance in November, propelled by government measures to curb social spending, keep wage increases under control and tackle unemployment. The measures enabled the Belgian central bank cut its key interest rates.

Italy showed the worst performance last month with a loss of 2.17 per cent, mainly in response to the municipal election results, which sent foreign investors scurrying out of Italian government paper. However, the high-yielding bond markets of Spain and Italy have been the top-performers since the start of the year in local currency terms, with returns of 28.26 per cent and 25.25 per cent respectively.

Net sales of gilts could be cut to £26bn in 1994-95

By Sara Webb

The UK government bond market could be looking at dramatically lower net sales of £26bn in the forthcoming financial year as a result of the lower Public Sector Borrowing Requirement and the chancellor of the exchequer's Budget decision to "sell some £7bn fewer gilts than would otherwise be necessary to fund the PSBR through to the end of 1994–95".

The gilt market was clearly delighted with Mr Kenneth Clarke's forecasts for a diminishing PSBR over the next few years, which implies a sharp decline in supply.

While there was no official revision for the 1993–94 PSBR in Tuesday's Budget, some City economists expect that the original £50bn forecast may turn out to be too pessimistic.

However, the chancellor gave the gilt market two shots of good news for the next financial year (1994–95). First, the PSBR is forecast to be £38bn rather than the £44bn which Mr Norman Lamont, the previous chancellor, projected in March 1993.

Second, Mr Clarke said that £6.8bn of gilt sales from the 1992–93 financial year would be used for funding between now and the end of the 1994–95 financial year. This follows from a change made to the funding rule in March 1993 whereby gilt sales to the monetary sector (banks and building societies) which in the past had not counted towards funding, would do so in future. Mr Lamont said then that retrospective account would be taken of the £6.8bn of purchases made in 1992–93 "over the next two to three years" but did not specify when.

The implications of these two measures are that the Bank of England will not need to issue so heavily in the gilt market. So far this year the Bank has issued about £43bn of gilts which will fund the estimated £50bn PSBR, leaving an estimated £7bn more funding to complete this financial year.

The Bank has another £3bn auction lined up for December 8, and in all likelihood will continue to hold auctions and issue stock through the first three months of 1994 – provided market conditions remain favourable – with the result that it will "over-fund" for 1993–94. Many gilt specialists believe the Bank would be wise to over-fund while conditions are good and there is a bull market for gilts.

With a 1994–95 PSBR of £38bn, the Bank may be looking at net gilt issuance of £26bn (taking into account the £6.8bn from gilt sales to banks and building societies in 1992–93 and estimated National Savings sales of £5bn). Taking into account gilt redemptions, gross issuance would be around £34–£35bn.

The Bank has been very successful in its funding programme in the last two years, during which gilts have rallied strongly. Provided market sentiment remains good and there are expectations of further base rate cuts, the funding task should not prove onerous.

Mr John Kendall, economist at Baring Sterling Bonds, says the chancellor should not rush to cut the base rate to 5 per cent, but should keep the gilt market on its toes waiting for the next half-point easing. "If they cut again too soon, there's a danger the market will think that is it and the next move will be upwards," he said.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/02	121.0400	-	6.80	6.80	6.63
Belgium		8.000	03/03	114.5300	+0.090	6.83	6.92	7.08
Canada *		7.500	12/03	104.7000	+0.250	6.84	6.95	6.92
Denmark		8.000	05/03	111.0200	+0.170	6.40	6.45	6.40
France	BTAN	8.500	05/98	109.2100	-0.140	5.34	6.08	6.10
	OAT	6.750	10/03	105.3100	+0.120	6.03	6.07	6.06
Germany		6.000	09/03	100.9700	+0.050	5.86	5.88	5.86
Italy		9.000	10/03	97.0300	+0.070	9.47†	9.29	9.25
Japan	No 119	4.800	06/99	110.6760	+0.850	2.60	2.94	2.92
	No 157	4.500	06/03	108.2370	+0.390	3.36	3.56	3.58
Netherlands		6.500	04/03	104.8500	+0.130	5.81	5.85	5.80
Spain		10.500	10/03	112.7800	+0.240	8.53	8.62	8.51
UK Gilts		8.750	01/98	113-20	+14/32	5.98	6.13	6.24
		8.000	06/03	110-17	+30/32	6.50	6.73	6.82
		9.000	10/08	121-01	+48/32	6.74	7.06	7.17
US Treasury *		5.750	08/03	99-24	+10/32	5.78	5.79	5.62
		6.250	08/23	99-25	+20/32	6.27	6.30	6.08
ECU (French Govt)		8.000	04/03	111.0700	+0.170	6.39	6.44	6.36

London closing. *New York mid-day. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	124.20	124.20	+0.20	124.32	124.12	107,678	140,840
Mar	127.98	127.98	+0.22	128.10	127.92	28,236	59,322
Jun	127.42	127.42	+0.22	127.42	127.38	5	3,256

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Mar	Calls Jun	Puts Jan	Puts Mar	Puts Jun
125	-	-	-	0.01	0.24	-
126	-	-	-	0.08	0.43	-
127	1.26	1.73	-	0.24	0.71	-
128	0.59	1.11	-	0.59	1.13	-
129	0.19	0.69	-	-	1.57	-
130	0.04	0.40	-	-	-	-

Est. vol. total, Calls 30,226 Puts 18,914. Previous day's open int., Calls 164,605 Puts 153,588.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.90	99.90	+0.13	99.97	99.86	77164	101873
Mar	100.00	100.01	+0.15	100.06	99.96	43574	53484
Jun	99.92	99.98	+0.15	99.98	99.92	154	749

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
10000	0.81	1.13	0.80	1.17
10050	0.59	0.98	1.08	1.44
10100	0.41	0.72	1.40	1.76

Est. vol. total, Calls 8181 Puts 4178. Previous day's open int., Calls 119314 Puts 64854

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.91	102.86	+0.08	102.91	102.84	10922	17976
Mar	103.10	103.09	+0.11	103.12	103.06	3902	2412

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.80	111.20	-0.12	112.04	110.78	33601	44730
Mar	112.20	111.96	+0.03	112.58	111.20	40816	64005
Jun	-	111.96	+0.03	-	-	0	1

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
11150	2.48	3.40	2.03	2.95
11200	2.21	3.16	2.26	3.21
11250	1.97	2.92	2.52	3.47

Est. vol. total, Calls 580 Puts 1902. Previous day's open int., Calls 21146 Puts 25478

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	102.65	102.78	+0.25	102.85	102.61	49,327	71,605
Mar	103.00	102.97	+0.25	103.06	102.87	8,068	33,388
Jun	-	104.00	-	-	-	-	50

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	117-00	117-26	+1-06	117-26	116-31	10919	33686
Mar	116-08	117-02	+1-05	117-04	116-07	87224	108729
Jun	116-07	116-12	+1-05	116-07	116-00	51	2

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
117	1-37	2-02	1-33	2-42
118	1-07	1-40	2-03	3-16
119	0-49	1-17	2-45	3-57

Est. vol. total, Calls 9870 Puts 4490. Previous day's open int., Calls 43116 Puts 17337

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	120.16	120.16	+0.22	120.22	120.14	1,762	9,471
Mar	119.68	119.66	+0.22	119.70	119.64	321	6,175

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	115-10	115-13	-0.03	115-18	115-08	83,129	177,334
Mar	114-03	114-04	-0.03	114-09	113-31	386,331	123,094
Jun	113-03	113-03	-	113-07	112-31	459	8,881
Sep	112-01	112-05	-0.07	112-06	112-01	130	12,860

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	116.58	-	-	116.61	116.52	212	0
Mar	115.65	-	-	115.85	115.55	1716	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Dec 1	Day's change %	Tue Nov 30	Accrued interest	xd adj. ytd		Low coupon yield Dec 1	Low Nov 30	Low Yr. ago	Medium coupon yield Dec 1	Medium Nov 30	Medium Yr. ago	High coupon yield Dec 1	High Nov 30	High Yr. ago
1 Up to 5 years (25)	130.05	+0.26	129.71	2.38	10.03	5 yrs	5.86	5.96	7.33	6.13	6.24	7.72	6.26	6.36	7.94
2 5-15 years (21)	160.35	+0.81	159.05	2.88	11.56	15 yrs	6.64	6.77	8.39	6.75	6.89	8.86	6.95	7.08	9.16
3 Over 15 years (9)	186.22	+1.36	183.74	3.38	10.04	20 yrs	6.74	6.87	8.65	6.77	6.91	9.02	6.96	7.10	9.25
4 Irredeemables (6)	218.63	+1.91	214.77	1.02	13.71	Irred.†	6.86	6.99	9.04						
5 All stocks (61)	155.73	+0.75	154.58	2.66	10.93										

Index-linked							Inflation 5% Dec 1	Nov 30	Yr. ago	Inflation 10% Dec 1	Nov 30	Yr. ago
6 Up to 5 years (2)	190.99	-0.06	191.11	0.82	4.28	Up to 5 yrs	2.15	2.12	2.55	1.31	1.27	1.76
7 Over 5 years (11)	189.76	+0.67	188.50	1.24	4.29	Over 5 yrs	3.04	3.09	3.88	2.86	2.90	3.70
8 All stocks (13)	188.96	+0.59	187.86	1.19	4.27							

Debentures and Loans						5 year yield Dec 1	Nov 30	Yr. ago	15 year yield Dec 1	Nov 30	Yr. ago	25 year yield Dec 1	Nov 30	Yr. ago
9 Debs & Loans (65)	148.16	+1.74	145.63	1.79	10.75	7.46	7.63	9.08	7.77	7.95	10.06	7.90	8.06	10.20

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Dec 1	Nov 30	Nov 29	Nov 26	Nov 25	Yr ago	High*	Low*
Govt. Secs. (UK)	105.14	104.18	103.94	103.64	103.64	92.81	105.14	93.28
Fixed Interest	127.22	125.87	124.64	124.23	124.05	108.04	127.22	108.67

* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 127.22 (1/12/93), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Nov 30	Nov 29	Nov 26	Nov 25	Nov 24
Gilt Edged bargains	105.7	104.3	87.1	81.9	96.6
5-day average	95.1	94.8	94.3	96.3	111.4

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	1993 High	1993 Low
"Shorts" (Lives up to Five Years)							
[illegible]							

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on December 1

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	100¼	100½	-⅛	6.46
AlbertaProvince 9⅜ 95	600	108⅝	109		4.53
Austria 8½ 00	400	113¾	114⅛		5.77
United Kingdom 7¼ 97	5500	105½	105⅞		5.24
Volkswagen Intl Fin 7 03	1000	102⅝	103	+⅛	6.61
World Bank 8 15	2000	27⅞	28⅛		5.98
World Bank 5⅜ 96	300	102	102½	-⅛	4.79
Alliance Leics 11⅜ 97 £	100	115⅞	115¾	+⅛	6.28
British Gas 12¼ 95 £	300	108⅞	108¾	+⅛	5.31
British Land 12½ 16 £	150	138⅛	139¼	+⅛	8.88
EIB 10 97 £	637	111½	111¾	+⅛	5.80
[illegible]					

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● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. ex Ex dividend. Closing mid-prices are shown in pounds.

COMPANY NEWS: UK

Pearson acquires Extel Financial for £73.5m

By Raymond Snoddy

Pearson, the publishing and media group, yesterday agreed to buy Extel Financial, the financial information group, from United Newspapers for £73.5m.

There was considerable interest in Extel, which pushed the purchase price beyond the expected £50m-£60m, but it is believed that Pearson, owner of the *Financial Times*, was the only bidder willing to buy all five divisions of Extel Financial, including the lossmaking Financial Systems side.

The purchase price, which has delighted United, includes repayment of an £11.8m inter-company loan.

Pearson, which announced in July it intended to concentrate on its media interests, said the buy would accelerate its expansion "into electronically delivered information markets not only in Europe but also in the US and Asia."

Extel Financial's businesses range from financial and corporate information on securities to financial news and services for investment administration and analysis.

According to Pearson, Extel's 1992 sales were £34.5m and pre-tax profits, excluding pension credit, £5.6m before losses of £2.8m in Financial Systems, a division providing investment accountancy systems and services. Pearson believes the losses can be cut sharply next year.

Mr Derek Terrington, media analyst at Kleinwort Benson, said the deal was "good news for United and a considerable challenge for Pearson."

Mr Graham Wilson, managing director of United, said that after provision for goodwill the sale would realise a net gain of more than £25m.

Extel, whose managing director is Mr Martin Brooks, a former Financial Times executive, will continue as a separate operating subsidiary with the Financial Times Group.

Mr Fred Perkins, managing director of Financial Times Information Services, said Extel was in almost every area complementary to FTIS services such as the Profile data base.

As part of the deal Pearson also gets a 50 per cent share of a joint venture with Agence France Press which operates the AFX electronic financial news service.

Argyll joins store price war

By Neil Buckley

Argyll Group yesterday became the third of the UK's big three retailers to admit that the trading climate was becoming more difficult in UK food retailing and that it was altering its strategy.

The group, which includes the Safeway, Lo-Cost and Presto chains, reported an increase in interim pre-tax profits from £205.1m to £217.3m. It warned, however, that trading would be difficult in the second half with increased price competition from Sainsbury and Tesco.

Sir Alistair Grant, chairman, said Argyll had adopted a three-point plan.

Safeway has launched an "everyday low pricing" campaign, cutting the prices of about 200 own-label and branded goods. The group has also cut its planned capital spending from £650m to £550m and is reviewing its policy on depreciation of land and buildings, which is likely to result in a £40m profits hit this year.

Mr David Webster, deputy chairman, said Safeway had not lost sales to the growing band of discounters such as Aldi, Netto and Kwik Save, but had been affected by a chain reaction.

The spread of discounters offering very low prices had forced superstore operators Asda and Gateway to cut their prices to compete, which in turn had forced Sainsbury and Tesco to respond.

This, he said, had destabilised the market, but he believed it would eventually regain its equilibrium. In the meantime, the bigger chains were best-placed to withstand the increasing competition.

"Chains with advantages of scale and efficiency, with big own brands, and who are prepared to tough it out, are in a much stronger position than new entrants."

Group sales were up 11 per cent to £3.15bn (£2.84bn). Sales at the Safeway chain increased 13 per cent to £2.55bn with new stores contributing 12.7 points of the increase. With inflation at about 2 per cent for the year, like-for-like sales were down about 1.7 per cent.

Operating profits at Safeway increased 21 per cent to £187.5m (£155.3m).

News from the Presto and Lo-Cost chains was less positive. Turnover increased 3 per cent to £601m, but operating profit fell 15 per cent to £23.7m. This was due mainly to a fall in profits at Lo-Cost, which Mr Webster admitted had been hit by competition from chains such as Aldi and Netto.

Group earnings were up 6 per cent to 14.1p (13.3p), and the interim dividend is raised to 3.75p (3.55p).

LWT considers making bid for Yorkshire-Tyne Tees

By Raymond Snoddy

London Weekend Television is considering making a bid for Yorkshire-Tyne Tees, the financially-troubled ITV company in which it holds a 14 per cent stake.

Following Carlton Communication's agreed conditional bid for Central this week, attention is turning to the future of LWT, the most attractive takeover target after Central.

Granada, which early this year bought 20 per cent in LWT, is being put off by the latter's hefty 593p share price and is also reluctant to move before a proposed ITV ownership rule change is approved by parliament.

The debate on the rule change, which outside London will allow one ITV company to hold two broadcasting licences, is scheduled for next Wednesday. Granada's results are due on the same day.

Sir Christopher Bland, LWT chairman, is believed to be determined not to accept a takeover if he can find an alternative that makes financial sense for shareholders.

Every possible target is being analysed at LWT, but despite the obvious difficulties Yorkshire-Tyne Tees has not been ruled out and is still being considered seriously.

The main problems include the need to divest Tyne Tees and demonstrate that Yorkshire (in which Pearson, owner of the Financial Times, has a 14 per cent stake) could be quickly returned to profit.

Uncertainty in the City over a possible bid could lead to a fall in the LWT share price, which could in turn make it easier for Granada to pounce.

Senior managers at Tyne Tees would, however, be interested in a buy-out, although it is unclear whether such a deal could be financed.

The Yorkshire-Tyne Tees results are expected on December 14 and are likely to show pre-tax losses of about £5m, mainly because of over-trading and discounting of advertising.

The problems are likely to be tackled in the 1992-93 accounts and Lazer, the LWT advertising sales team which formally takes over the Yorkshire sales business on January 1, will be able to sell 100 per cent of the Yorkshire-Tyne Tees airtime.

Yorkshire-Tyne Tees is capitalised at only about £90m, compared with LWT's market capitalisation of some £600m.

Derwent pays £9m for offices

Derwent Valley Holdings, through its Colebrook Estates subsidiary, is buying a 75,000 sq ft 10-storey leasehold office building for £9.23m.

The property, at London's Hyde Park Corner, is held on a 70-year unexpired ground rent of £2,750 a year.

Its rental income amounts to £1.67m a year with most leases due for renewal at the end of 1994.

The consideration will be satisfied from the company's existing facilities.

NEWS DIGEST

Millgate poised for USM float

Millgate is coming to the USM through the placing of 17.8m shares at 40p to raise a net £6.6m. Of the proceeds £6.02m will be used to purchase Laserline Car Alarms (UK), and the balance for working capital.

An additional £400,000 is being raised by the sale of shares at 40p to some directors and Laserline SpA, the Italian manufacturer of the alarms which Laserline (UK) imports.

In the six months to May 31 Laserline (UK) reported pre-tax profits of £455,000 on turnover of £2.97m. Net assets are warranted at not less than £666,500.

Gibbon Lyons

Increased market share helped Gibbon Lyons raise pre-tax profits by 38 per cent in the six months to September 30.

On sales up 10 per cent at £12.7m (£11.5m) the pre-tax figure increased from £712,000 to £980,000.

The USM-quoted maker of printing inks and related products raised its interim dividend to 2.2p (2p) on earnings per share of 6.3p (4.4p).

Mid Kent

Mid Kent Holdings, the water supply company, announced an 11 per cent reduction in pre-tax profits from £4.28m to £3.8m for the half year to September 30.

Turnover rose 5 per cent to £16.4m (£15.6m) but the pre-tax result was after a net interest charge of £644,000 against £298,000 received. That represented the costs of financing the continuing investment programme.

The interim dividend is lifted to 5p (4.75p), payable from earnings per share of 16.7p (19.3p).

Radius

Shares in Radius fell 6p to 27p yesterday after the USM-quoted computer systems and maintenance company said that following a particularly bad third quarter operating losses for the second half to December 31 would be broadly similar to the first.

However, based on the continuing growth in sales of the group's new products, directors expect a return to profits in 1994. Pre-tax losses of £466,000 were reported for the first half.

Mountview Estates

Mountview Estates, the property dealing group, saw profits dip to £3.37m in the half year to end-September.

The decline from last time's £3.62m was described by directors as "disappointing" although there was "reasonable expectation" that results for the full year would match the previous £6.79m.

Turnover amounted to £7m (£7.31m). Earnings dipped to 49.3p (52.8p); the interim dividend goes up to 10p (8p).

Cantab Pharm

Cantab Pharmaceuticals, which came to the market in October, reported higher third quarter pre-tax losses of £762,000, against £359,000. Turnover fell from £280,000 to £219,000.

The figures for the nine months to September 30 showed losses of £2m (£825,000) on turnover of £837,000 (£1.45m). Three months losses per share were 14p (8p) for nine month figures of 37p (20p).

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Strong second half lifts Bass

By Philip Rawstorne and Peter Montagnon

A strong second half performance by Holiday Inn operations in the US and Asia/Pacific helped Bass, the UK brewing, hotels and leisure group, lift full year pre-tax profits 7.4 per cent to £508m.

The results were ahead of market expectations and the shares added 34p to 537p.

Mr Ian Prosser, chairman and chief executive, said it appeared unlikely that trading in the first half of the present financial year would benefit significantly from the economic environment.

"However, the management actions we have taken will produce improvements over the year and the business is well placed to gain from any increased consumer spending in our markets."

Operating profit for the year to end-September increased marginally to £603m on turnover which grew by 3.3 per cent to £4.45bn.

Holiday Inn profits rose 15.3 per cent to £128m (£111m). The results reflected a substantial turnround after a first half decline. In North America second half dollar profits were 15.5 per cent higher, with revenue per available room 3 per cent ahead, and in Asia/Pacific profits rose 41 per cent.

Overall, a net 89 hotels were added to the system which now comprises 1,774 hotels.

Brewing profits fell 8.2 per cent to £156m, hit by price competition and charges of £18m for reorganisation, increased bad debt provisions, and the change to end product duty. Net margins fell from 10.9 per cent to 9.8 per cent.

UK beer volumes, however, rose nearly 1 per cent to 8.38m barrels and market share grew 0.5 per cent to 23 per cent.

Profits from Britvic soft drinks fell to £35m (£41m) as recession, poor summer weather, and price competition reduced sales volume by 5 per cent.

Pub profits, reflecting a reduction in the estate of about 520 outlets, were 4.2 per cent lower at £205m. But profit per managed house, driven by an increasing contribution from food sales, was 5 per cent higher.

Leisure operations raised profits by 15.6 per cent to £74m with a strong performance by Barcrest, the amusement machine business, which led the UK market with a 43 per cent share, and improvements from Coral betting shops and Gala bingo clubs.

Earnings per share grew 2.8 per cent to 36.3p and a final dividend of 14.35p lifts the total 4.8 per cent to 19.8p.

COMMENT

Bass has seen a remarkable improvement in the second half and deserves credit for increasing its share of the beer market with only a limited drop in margins. But since the market is likely to remain highly competitive there must be doubt about whether the company can cut costs far enough to avoid further margin erosion. Hotel profits were actually down by 2 per cent in dollar terms. While the US hotel business is showing good underlying growth, the European market is depressed and further progress in the US may depend on the rate at which new franchises are added. Brokers' profit estimates for the current year of about £530m put the shares on a forward multiple just over 14 times. That would make them expensive without the support of a historic yield of 4.6 per cent.

Sorrell sells 40% of WPP holding

By Diane Summers, Marketing Correspondent

Mr Martin Sorrell, chief executive of WPP, the heavily-indebted marketing services group, has sold about 40 per cent of his shares in the company.

A total of 848,917 shares were sold by Mr Sorrell on November 18 at 92½p, leaving him with 1.3m shares out of WPP's issued equity capital of 434m shares.

Mr Sorrell is the first director to turn seller of the shares since they began a robust recovery from their all-time low of 22½p in October 1992.

He and some fellow board members had been periodic buyers of the shares during the sharp upturn.

Mr Sorrell bought 100,000 shares at 34½p in September 1992, while other directors acquired stock the following month.

Mr Sorrell acquired a further 100,000 shares at 55p this January.

WPP's share price peaked at 105p in mid-September, following the sale by banks of most of the ordinary shares they received by converting preference shares in the company.

SG Warburg, the stockbroker, bought 46.9m shares at 93p and placed them at 94p with 60 institutions in the UK, US and Europe.

The shares yesterday closed 3p up at 91p.

Brighter outlook for GEC on back of investment

By Alan Cane

Yesterday's sharp decline in GEC's share price, sparked by Lord Prior's warning of more or less flat earnings for the current year, may have been overdone. There is no doubt, however, that coupled with the group's lacklustre results for the first half, the warning prompted an abrupt change of market sentiment.

Looking further ahead the picture is somewhat brighter, as the group should begin to reap the benefits of its heavy investment in electronic systems and power systems, two of its three principal businesses.

Profits in the electronic systems division, for example, were down by £11m to £79m but orders, up 2 per cent since March at £4.9bn, exceeded sales of £1.14bn.

Orders were received for avionics systems for Tornado aircraft for Saudi Arabia, sonar systems for Trident and the laser warner for the Eurofighter.

The decline in profits in electronic systems was caused by heavy development costs necessary before product sales, according to Lord Weinstock, GEC managing director. The costs of interactive in-flight entertainment systems, for example, had risen and provisions had been made. Work on the Eurofighter was progressing, but longer development cycles provoked higher spending, he said.

Pre-tax profits in the components – semiconductor chips – area were flat at £6m. The company's profitability is tied to volume sales of products such as computer disk drives for which it makes special circuitry.

Power systems showed a slight rise in pre-tax profits from £77m to £79m. The order book, at £6.6bn, was 5 per cent higher than at the March 31 year end. The company has been selected by the Korean High Speed Construction Authority to negotiate the high speed train contract for the Seoul-Pusan line, valued at $2.4bn (£1.61m). It has also won orders worth more than £300m for London Underground's Jubilee Line extension.

Telecommunications, the third of GEC's principal businesses, showed a significant drop in profits to £44m (£61m). Orders received, however, were up 32 per cent.

Continental Europe, where GEC has about one third of its business, remains the company's chief problem area, but the trio of businesses in the US, Gilbarco, Videojet and Picker, turned in record sales and profits.

Yorkshire Water advances 4.2%

By Andrew Bolger

Yorkshire Water said its non-regulated businesses made an small but encouraging contribution to pre-tax profits, which grew by 4.2 per cent to £74.8m in the six months to September 30, against £71.8m.

The interim dividend is lifted 8 per cent to 7.6p (7.05p). The interim payment will exceptionally be made on April 6, to take advantage of the reduction in the rate of advance corporation tax effective from that date.

Turnover rose by 8 per cent to £259.4m (£239.5m), in which there was an overall increase in main charges income from the core business of a little more than 5 per cent, and an increase of nearly 75 per cent from non-regulated activities.

The downward trend in industrial and commercial water consumption continued and this seemed likely to be maintained as more customers sought economies.

Investment in water services totalled £112m in the first six months, almost 20 per cent below last year's record level. Investment totalling £260m was planned for the full year, which Yorkshire said was sufficient to maintain progress towards compliance with the company's quality and environmental obligations.

Non-regulated activities contributed £2.9m to operating profits of £83.8m. A further £63m was invested in the non-regulated activities during the period, including the purchasing of a third leasing company in July for £51m. The operating profits were evenly split between leasing, property and environmental activities.

Net debt rose £10.1m to £225.9m, giving gearing of 18.3 per cent, up from 11.2 per cent.

Earnings per share were 36.1p (34.4p).

COMMENT

Yorkshire's shares closed 25p higher at 585p, boosted partly by a rising market. However, the company helped give the whole sector a lift by talking again about the scope for reducing manning levels over the next five years, which will be speeded by a new management structure. The shares are on a prospective yield of about 5 per cent, which puts them in the middle of the pack. Yorkshire has done well on the costs front and seems to have chosen interesting areas for diversification, such as medical incineration. However, the shares are likely to drift, along with the rest of the sector, until the regulator gives a clearer indication in July of the pricing regime which will apply from 1995 onwards.

GEC expected to acquire choicest parts of Ferranti

By Paul Taylor

Even though GEC yesterday abandoned its 1p a share rescue bid for Ferranti, Britain's biggest manufacturing group is still expected to pick up the best of what remains of Ferranti's defence electronics businesses.

Indeed GEC could well save money by buing those Ferranti operations it wants from the receiver instead of footing an £11.4m acquisition bill and assuming responsibility of Ferranti's net debts, contingent liabilities and overdue creditors' payments totalling about £155m.

The dismantling of Ferranti actually began in 1989 following the discovery of huge fraud in International Signal and Control, the US subsidiary which Ferranti acquired in 1987.

The ISC fraud blew a massive hole in Ferranti's balance sheet and forced Ferranti's management, led by Mr Eugene Anderson, chairman, to embark on a £500m asset sale programme to try to keep Ferranti afloat. In the process its workforce was cut from 22,000 to less than 3,700 and bank debts were reduced from £689m in 1989 to about £100m at the end of September.

GEC picked the prize fruit of the Ferranti empire after the ISC debacle, paying £310m in 1990 for its radar division.

The business included the project leadership for the radar to equip the European Fighter Aircraft. Last year, GEC-Marconi bought the company's missile business for £38m.

In its offer document for Ferranti issued at the start of November, GEC identified four other areas where a combination of both group's operations would result in business units "better placed to win orders for defence equipment at home and overseas." These are combat management systems for surface ships and submarines; air defence command, control and communications systems; ship and submarine sonars; simulation and training products.

It is assumed that these are the businesses which GEC might be interested in acquiring from the receivers. Among these assets Ferranti's sonar operations were folded into a joint venture with Thomson-CSF, the French defence group, in 1990 and its investment was valued at £25.7m in the latest accounts.

Putting a value on Ferranti's other assets is difficult, particularly since much of the potential value to a purchaser probably lay in the experience of its workforce which may now be dissipated.

Huntingdon falls to £8.79m

By Catherine Milton

Severe price competition and weak demand in some areas saw pre-tax profits at Huntingdon International, the life sciences and engineering services company, fall from £14.4m to £8.79m in the year to September 30.

The board remained confident about long term prospects but expected 1994 to be another difficult year. Earnings growth in the second half of 1993 was unlikely to continue through the first quarter of 1994.

A maintained final dividend of 1.9p is proposed for an unchanged total of 2.775p. Earnings fell to 7.4p (11.5p).

Sales, net of subcontracting costs, rose to £156.1m (£139.8m). Operating profits were £15.5m (£16.7m). Mr Christopher Cliffe, finance director, said the company had endured "one of the most difficult years in its history".

There was a £3m exceptional charge for restructuring the US engineering and environmental business which forced the company to make a trading statement in March.

However, the company's strongest business, life sciences, had seen growth in confirmed contracts net of cancellations for the first time in three years. The division had resisted price pressure, margins had held up and even improved, Mr Cliff said.

The first full year contribution from Travers Morgan, the construction-related project management company bought in December 1991, had been struck during a year of survival in the midst of fierce competition in its largest UK market.

Net debt rose to £44.5m (£39.7m) partly because of the large amount denominated in dollars. Gearing at the year end was 69.9 per cent (70.9 per cent).

For the second year in a row the company saw a net cash outflow, of £3.2m (£4.6m). In 1992 Huntingdon paid £11m for Travers Morgan.

New Rothmans and Vendome lose appeal

By Maggie Urry

An appeal by New Rothmans and Vendome Luxury Group to have their shares included in FT-SE Actuaries share indices has been turned down by the appeal committee.

However, the committee said it "would strongly hope that a means may be speedily found whereby New Rothmans and Vendome Luxury Group may be included in the UK indices."

The shares were excluded by the FT-SE Actuaries Share Indices Steering Committee because the companies do not conform to the definition of UK companies.

A working party will now start to review the share indices ground rules on the inclusion of shares in companies with cross border capital structures. A decision is expected from the steering committee by next April.

Stammers set to resign second post

By Andrew Bolger

Mr Lionel Stammers is expected today to resign as non-executive director of BBA, the car components group – just 24 hours after stepping down as non-executive director of BTR, the industrial conglomerate.

Mr Stammers is believed to have decided to quit both posts after concerns arose about possible future conflicts of interest between the groups.

He wanted to behave in an even-handed manner over any potential conflict of loyalty.

It appears BTR is still smarting over the departure of one of the industrial conglomerate's most promising executives, Mr Roberto Quarta, 44, who last month left to become chief executive of BBA.

Mr Stammers's resignation from BTR yesterday severed a 29-year connection with the group. BTR said the possibility of future conflicts of interest with a competitor meant his resignation had been announced "with regret".

Mr Norman Ireland, BTR's chairman, stressed he was not suggesting any impropriety by Mr Stammers, who he accepted had played no part in Mr Quarta's selection. He had the highest regard for Mr Stammers, a former joint chief executive of BTR's European region and an executive director until 1988. Mr Ireland said: "There's nothing in the air between us – it's just a situation that arose."

However, since Mr Stammers joined BBA's board in 1989, the scope for a conflict of interest is scarcely new.

BTR watchers will be left wondering what role had been planned for Mr Quarta, the US-born son of an Italian tailor who was seen as a future candidate to succeed Mr Alan Jackson as chief executive.

Dairy Crest ahead to £17m

By Maggie Urry

Dairy Crest, the Milk Marketing Board's dairy products division which is due to float in the new year, recorded a 28 per cent rise in pre-tax profits from £13.3m to £17m for the half year to September 30.

Profits were struck after £2m (£4.4m) of exceptional rationalisation costs.

Mr John Houliston, chief executive, said Dairy Crest was "very much looking forward to industry deregulation and flotation."

The flotation is expected to value the group at between £250m and £300m.

Mr Houliston said details of the move were under active discussion.

In the past three years much had been done to prepare the business to be "a robust and sustainable" company when it was exposed to a free market in milk, when the MMB is abolished on April 1, and to being a public company.

Mr Houliston said that although he believed that Milk Marque, the buying group the MMB has proposed to succeed itself, was the safest way of moving into the new system, the company's prime consideration was to guarantee its milk supplies at competitive prices.

In the half year turnover fell from £575m to £526m, as the volume of milk available for manufacture fell by 6 per cent and Dairy Crest had to absorb price increases of 12.8 per cent for liquid milk.

Turnover from continuing operations rose 1 per cent to £412m (£409m). The group sold five bottling dairies which supplied doorstep milk deliveries, a market currently down by more than 10 per cent.

Operating profits from continuing businesses rose 14 per cent to £17.7m (£15.5m).

The consumer foods division increased operating profits by to £9.2m (£6.6m), but the food services side fell from £8.9m to £8.5m.

Heron repays £150m early

Heron International, Mr Gerald Ronson's private property and trading group which finalised a £1.2bn debt restructuring in September, has repaid £150m of debt early, writes Maggie Urry. The payment, made by Heron Corporation, was due on March 31 next year and £25m of it had been repaid by September.

The payment was made largely from disposals of properties which have been sold at values higher than those ascribed to them in the refinancing plan.

Heron cut its debt in the restructuring through a swap of some loans into equity. The next debt repayment is £160m March 1996.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Argyll	int	3.75	Feb 21	3.55	-	10.9
Bass	fin	14.35	Feb 9	13.65	19.8	18.9
Cape	int	3	Jan 10	3	-	10.75
Field	int	2.3	Feb 21	-	-	-
GEC	int	2.81	Mar 31	2.68	-	10.3
Gibbon Lyons §	int	2.2	Feb 14	2	-	5
Gibbs Mew §	int	3.75	Apr 6	3	-	7.5
Huntingdon Intl	fin	1.9	Feb 8	1.9	2.775	2.775
Johnson Matthey	int	3.4	Feb 2	3.2	-	10.3
Mid Kent	int	5	Jan 20	4.75	-	10.5
Mountview Ests	int	10	Mar 28	8	-	20
Rowlinson Secs	int	0.24	-	0.24	-	1.5
Yorkshire Water	int	7.6	Apr 6	7.05	-	21.25

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

COMPANY NEWS: UK

British Bio-technology losses widen to £8.8m

By Tim Burt

British Bio-technology, the pharmaceuticals group, yesterday announced losses of £8.81m for the six months to October 31, against £4.72m.

The company blamed the 87 per cent increase on escalating costs of developing a new generation of anti-cancer and anti-Aids drugs.

Mr James Noble, finance director, said the results were within budget but warned that further losses were inevitable as the company continued clinical trials of drugs which would not go on sale for at least three years.

The range of drugs being tested by the company includes new treatments for cancer, HIV, acute shock and asthma.

Mr Noble claimed most bio-technology companies incur losses while they develop such drugs, and British Bio-technology was no exception.

The results also included second quarter figures which showed turnover, on continuing operations, of £693,000 (£1.2m). Losses amounted to £4.61m (£1.83m) and losses per share worked through at 12.7p (5.1p).

Losses are expected to worsen next year with the launch of clinical trials in the US.

These trials will be conducted by a new subsidiary in Maryland which will oversee drug development and seek regulatory approval in the US.

"We're moving into the most expensive stage of development and we will need to raise more money," Mr Noble said.

The company expects to make a share placing in 1994 and hopes to forge alliances with large pharmaceutical manufacturers to cover development costs of its patented drugs.

Turnover for the six months declined from £3.9m to £2.83m, mainly reflecting the disposal of British Bio-technology Products, its research reagent and assays subsidiary, which was sold in July to Techne Corp of the US.

Interim losses per share widened from 14.3p to 24.3p.

Trevor Osborne: to be chairman of new joint venture facilities management company

Tony Andrews

Osborne back into property

By Catherine Milton

Mr Trevor Osborne, former chairman of Speyhawk, the debt-strapped development company which went into receivership in May, yesterday took another step back into the property world with the launch of a facilities management company.

The new concern, Building and Property Group, is a joint venture formed by Amec, the UK construction company, and Pell Frischmann, the international engineering consultancy.

BPG paid the UK government £10.4m for two former Property Services Agency businesses, Building Management South East and Building Management South & West.

Mr Osborne, brought in to chair the company through Pell Frischmann, claimed the joint venture is the UK's largest facilities management company, with pre-tax profits forecast at £20m for the year to March 1994 on sales of £450m.

Unkindly dubbed "Clever Trevor", Mr Osborne, one of the best known figures in the UK property industry, is anxious to put the unhappy experience of Speyhawk behind him. At the time of the receivership 46 banks were owed more than £350m secured on assets of £200m. Mr Osborne said: "Building and Property is the story - not me."

Gibbs Mew ahead to £1.6m as cask ale sales jump 25%

By Graham Deller

Gibbs Mew, the Salisbury-based brewer and commercial property company, has built upon the revival shown in last time's second half. The USM-quoted group yesterday reported a marked improvement in profits and earnings per share and its first increase in the level of interim dividend since 1990.

Profits before tax for the six months to October 2 amounted to £1.6m, against £317,000 in the corresponding period and £1.17m for the last full year. Comparisons were restated for FRS 3.

Mr Tom Hedderson, appointed non-executive chairman in October following the death of Mr Peter Gibbs, who had headed the company since 1967, said the group had "produced real growth and profit despite economic and trading conditions that remain extremely fragile and exceptionally competitive".

The increase, he said, reflected the integration of UK D and the move away from high volume low margin business. Turnover totalled £18.4m (£11.8m); adjusted for UK D sales, however, the figure fell by some £1.5m.

The brewery division was the main engine of growth with volume sales of cask-conditioned ales ahead by some 25 per cent.

The interim dividend is raised 25 per cent to 3.75p (3p), payable from fully diluted earnings of 16.99p (2.44p).

Field grows by 14% to £6.8m

By Maggie Urry

Field Group, the folding carton company which floated on the stock market in July, yesterday reported interim results showing a 14.4 per cent rise in pro-forma pre-tax profits to £6.8m – in line with expectations.

The interim dividend is set at 2.3p, an 8 per cent rise on the dividend the group indicated it would have paid had it been public last year.

The shares rose 8p to 273p, compared to the float price of 250p.

Mr Keith Gilchrist, chief executive, said that the high level of promotional activity by customers such as supermarkets – which adversely affects Field's business by shortening runs – had not eased as hoped. Mareen, the Belgian subsidiary, had been affected by the economic slowdown in continental Europe, although it had recently won two new contracts worth £1.5m.

However, the group's Portsmouth factory had beaten expectations on its tobacco packaging machine, installed in February.

Mr Gilchrist said recovery in the UK was still slow and fragile, but there were signs of improvement further ahead. For instance, orders for Easter egg packaging next year were not imaginative, but designs for Easter 1995 now being discussed were revealing a greater desire for innovation from customers suggesting, he said, "marketeers are less constrained by accountants".

Pressure on selling prices had been balanced by raw material price reductions and through cost cutting. Turnover growth in the half to October 3 was 10.5 per cent to £75m, although volume growth was higher than that.

Operating profits rose 10.7 per cent to £8.97m, including £205,000 from the packaging business bought from Boots in July. Pro-forma interest charges fell to £176,000 (£360,000). The tax charge for the year is estimated at 36 per cent. Earnings per share were 8.5p (7.5p) on a pro-forma basis.

Despite the £5.7m acquisition of the Boots business, net debt was £1m.

Northamber cuts first half deficit to £54,000

Reduced pre-tax losses of £54,000 were announced by Northamber, the supplier of computer hardware and software, for the half year to October 31. Losses last time were £486,000 restated.

Mr David Phillips, chairman, said the result reflected the benefit of the closure of Studley in Ireland, which lost £258,000 in the first half last year and more than £1m in the full year.

On trading he said that competition continued to intensify and gross margins declined again in the period.

It was clear, he stated, that the 1993-94 year could be another difficult year for the sector.

Turnover improved to £45.7m compared with £45.3m which included £3.05m from discontinued operations.

Losses per share were 0.3p (3.2p).

COMPANY NEWS: UK

Car catalyst side casts shadow over mid-term performance

Johnson Matthey improves 6%

By Kenneth Gooding, Mining Correspondent

Johnson Matthey, the precious metals technology group, lifted profits before tax by 6 per cent from £33.2m to £35.1m in the six months to September 30 1993.

The interim dividend goes up from 3.2p to 3.4p.

Mr David Davies, chairman, said the group had performed well.

The result was widely predicted but analysts came away from a meeting with management disappointed by the performance of the car catalyst business, where turnover was up only 2 per cent, and the share price dipped 3p to 496p in an otherwise rising market.

Some analysts also suggested that JM had been a good defensive stock in the recession but was unlikely to gain as much as other companies from the recovery.

Earnings per share rose 21 per cent, from 12.1p to 14.6p, after a one-off £3.7m saving on ACT from the group's enhanced scrip dividend alternative.

Mr Davies gave little away about the second half.

He said there were some "encouraging" signs of growth in the US economy but recovery in the UK remained fragile and JM was experiencing poor conditions in other European markets.

Platinum group metals prices are important to JM because it takes a percentage commission from Rustenburg of South Africa.

Mr Davies pointed out that, although rhodium prices had recovered from their lowest levels, "any significant improvement in platinum group metals prices is unlikely without sustained economic recovery."

The materials technology division provided the highlight of the half-year and continued its recovery with a 58 per cent improvement in operating profit to £13.5m.

Operating profit at the catalytic systems division was slightly ahead at £13.3m; in the colour and printing division it was up 19 per cent at £5m, while the precious metals division's operating profit was down by £400,000 to £10.1m.

Mr Davies revealed that, after a successful two-year collaboration, JM had signed a license agreement with Sandoz Pharma, the Swiss group, for a class of anti-viral compounds which have a novel mechanism of action against the virus that causes Aids.

The compounds were identified at JM's biomedical research facilities and have been patented.

Mr Davies also pointed out that, although 50 per cent of JM's profit was earned outside the UK, where it is based, only a small proportion was earned in the growth markets of Asia.

The company was attending to this: a £35m facility had been opened in Japan and the group was "well down the road" towards establishing a car catalyst manufacturing plant "somewhere in south-east Asia."

Anglo United reduces deficit to £6.5m

By Katrina Lowe

Anglo United reported a sharply reduced pre-tax loss of £6.5m for the six months to September 30, helped by a "significant recovery" in its Coalite smokeless fuel business.

On sales from continuing operations of £236m (£244m), profit before interest was £5.7m, against a £6.4m loss in the comparable period.

Interest payable of £12.2m (£16.2m) meant that losses at the pre-tax stage narrowed from £22.6m to £6.5m.

The results for the first half of 1992 were hit by the £11.2m costs connected to its bank restructuring, abortive disposals and loan write-offs.

Mr Harold Cottam, chairman, said that in the period under review efforts had been focused on improving divisional performance.

The £2m profits advance to £4.8m in the smokeless fuels division had been achieved mainly through cost reductions. These had offset reduced demand for coal from electricity generators and for the various industrial services provided to British Coal.

Lower demand from agrochemical producers hit the liquid fuels and chemicals division, which had an operating loss of £400,000 (£200,000).

Mr Cottam said operating profits from other businesses rose to £1.3m (£1.2m), excluding Dundee, Perth & London Shipping, sold in March.

Losses per share were cut to 0.8p (7.1p).

Alexander & Alexander buys actuarial firm

By Richard Lapper

Alexander & Alexander Services, the US-based international insurance broker, is to acquire Clay & Partners, one of the UK's biggest actuarial firms.

A&A paid Clay's partners with 2.27m shares of A&A common stock, valuing the firm, which provides employee benefits and related consulting services to corporate clients, at $40m (£27m).

The deal is A&A's biggest since it acquired Reed Stenhouse in 1985 and signals growing interest among international insurance brokers in the skills of actuaries, which are increasingly important in commercial insurance and linked consultancy business.

The world's biggest broker, Marsh & McLennan, acquired William M Mercer, the UK's biggest firm of actuaries, in 1986.

Clay employs 90 qualified actuaries, ranking third equal in size in the UK with Bacon & Woodrow. Its practice complements the more regionally diversified consultancy business of Alexander Consulting Group, the A&A consulting subsidiary.

Mr Brian Kennedy, chairman and chief executive of ACG in Europe, said the new business – Alexander Clay & Partners – will be made up of 650 professional and support staff.

He said Clay's "actuarial strength complements ACG's existing human resource management consulting services."

Acquisition costs cut Cape to £6.1m

By Tim Burt

Cape, the building products and industrial services company, reported pre-tax profits down by 6 per cent to £6.1m in the six months to September 30, against £6.5m.

The company blamed interest payments of £800,000, compared with receivable of £100,000. Net borrowings at the period end were £8.5m following the £8.25m acquisition in January of Darchem Contracting.

Group operating profits rose 4.5 per cent to £6.7m. The figure was after a £1m loss at Socap, the French insulation business.

The loss followed an investigation which discovered that the subsidiary's profits had been overstated.

Mr Michael Farebrother, chief executive, said yesterday: "The management responsible for the problems in the French company have been dismissed."

Socap's activities have been cut and the workforce reduced by 100.

The financial mis-statements were corrected by a £5.9m adjustment to shareholders' funds in the balance sheet to March 31, he added.

Socap's poor performance contributed to a 20 per cent decline in operating profits of the industrial services division to £3.3m. Turnover fell 10 per cent to £83.6m.

The problems were offset by the building and architectural products division, where operating profits rose from £3.2m to £4.1m and turnover increased £300,000 to £55.3m.

Cape's results were also held back by a £200,000 increase to £800,000 in the compensation provision for former workers suffering from asbestosis.

Group turnover declined by 7 per cent to £118.9m (£127.9m). The interim dividend is maintained at 3p, payable from earnings per share down from 8.2p to 7.6p.

GWR shows sharply lower loss of $9m

Great Western Resources, the US-based oil, gas and coal company which almost collapsed last year following litigation with its largest customer, announced pre-tax losses of $9m (£6m) for the year to September 30, against $47.4m.

Total revenues advanced to $123m ($74.9m) with revenue from coal at $97m ($48m). Costs and expenses increased from $122m to $132m and included a provision of $3.65m for settlement of litigation.

Losses per share were 8 cents (52 cents).

Armour Trust litigation withdrawn

Agreement has been reached to settle litigation between Armour Trust, Random Investments of Jersey and Mr Cyril Freedman, a former director of Polco Products and Polcon.

Under an agreement dated October 1985, Armour Automotive Group acquired Polco and Polcon and agreed to buy Random's holding at fair value.

Armour will acquire Random's holding of AAG loan stock for £49,323 and will issue 103,000 shares to fund the purchase of Random's 2.75 per cent stake in AAG.

Rowlinson Secs doubles to £1.1m

Rowlinson Securities, the Cheshire-based property group, doubled first half profits from £515,000 to £1.11m pre-tax in the six months to September 30.

Gross rental income was £1.87m (£1.68m).

Earnings per share were 5.96p (2.76p). The interim dividend is held at 0.24p.

FT-SE Actuaries Indices: company sub-sector reassignments

Company	from sub-sector	to sub-sector
AG Holdings	516 Other Businesses	282 Paper & Packaging
Albert Fisher Group	440 Retailers & Wholesalers, Food	330 Food Manufacturers
Amberley	516 Other Businesses	222 Building Materials
American Express	710 Banks	772 Financial, Other
Barbour Index	481 Business Support Services	436 Publishing
Benchmark	710 Banks	792 Property
Bimec	512 Pollution Control	264 Engineering, Contractors
Bridgend Group	772 Financial, Other	412 Dist of Ind Components & Equip
Bullough	262 Electrical Equipment	265 Engineering, Diversified
Burton Group	454 Retailers, Chain Stores	452 Retailers, Multi-Department
Business Post Group	414 Distributors, Other	481 Business Support Services
Capital House	97 Currency Funds	94 Offshore Inv Comp & Fund
Computer People	492 Educ, Bus Train & Emp Agencies	487 Computer Services
Dart Group	414 Distributors, Other	490 Transport
Faber Prest	222 Building Materials	414 Distributors, Other
Fin. Gefion	734 Insurance Composite	772 Financial, Other
First National Fin. Corp	772 Financial, Other	710 Banks
Forward Technology Inds	422 Leisure	253 Electronic Equipment
Garrard & National	774 Discount Houses	772 Financial, Other
Goode Durrant	413 Vehicle Distributors	490 Transport
In Shops	454 Retailers, Chain Stores	792 Property
Ladbroke Group	422 Leisure	424 Hotels & Caterers
Mitsubishi Corp	97 Currency Funds	240 Diversified Industrials
Northern Telecom	660 Telecommunications	253 Electronic Equipment
Powell Duffryn	490 Transport	240 Diversified Industrials
Rentokil	512 Pollution Control	481 Business Support Services
Rhino Group	422 Leisure	454 Retailers, Chain Stores
Rodime	772 Financial, Other	516 Other Businesses
Salvesen (Christian)	414 Distributors, Other	481 Business Support Services
Sears	452 Retailers, Multi-Department	454 Retailers, Chain Stores
Senior Engineering	262 Engineering, Fabricators	265 Engineering, Diversified
Standard Platforms	412 Dist of Ind Components & Equip	487 Computer Services
Stat-Plus Group	454 Retailers, Chain Stores	481 Business Support Services
Time Warner	436 Publishing	422 Leisure
Tolux	778 Investment Companies	772 Financial, Other
Vega Group	481 Business Support Services	487 Computer Services
Verity Group	422 Leisure	253 Electronic Equipment
Warner Howard	486 Laundries & Cleaners	481 Business Support Services
Waverley Mining Finance	800 Investment Trusts	129 Mining Finance
Widney	263 Engineering, Speciality	240 Diversified Industrials

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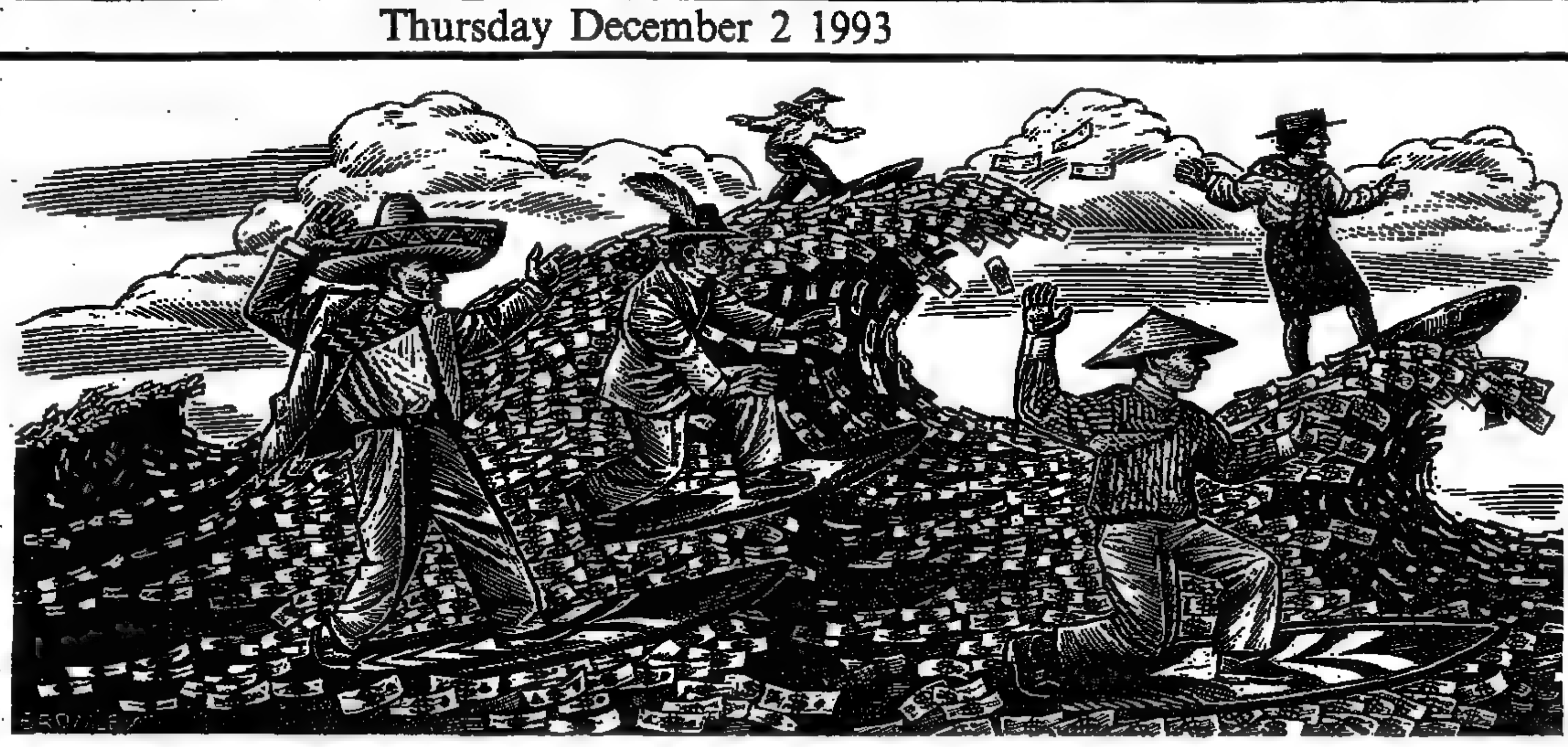
FINANCIAL TIMES SURVEY

INTERNATIONAL FUND MANAGEMENT

Thursday December 2 1993

International fund managers have enjoyed buoyant conditions in most markets, with bonds largely leading equities upwards. A general downward trend in short term interest rates has created a benign framework for the capital markets. **Barry Riley** reports

US investors back in the driving seat



IN THIS SURVEY

It has been a year in which the US has once again come to dominate the global investment scene.

Upstart rivals such as Japan and Europe have faced acute domestic problems and have retreated before the tidal wave of money – aggregating nearly $50bn during just the first half of 1993 – which has left the US and flooded into the global equity and bond markets.

One corporate event may symbolise this new phase of American domination: the decision by the troubled German motor giant Daimler-Benz to list its shares in New York in October, and to agree to publish amended financial statements which comply with the US generally accepted accounting principle (GAAP).

Not very long ago, it was countries such as Germany and Japan that were effectively writing the rules on the back of heavy capital outflows. However, Germany has stumbled under the burden of reunification and its capital surplus has faded away. Japan, meanwhile, is still fighting its long battle against debt deflation and the aftermath of the bubble economy of the 1980s.

The Japanese economy is in deep recession. One consequence is a large balance of payments surplus that has helped to push the yen exchange rate to extreme heights. Instead of sending more capital abroad and risking currency losses, Japanese investors are keeping their heads down.

As for the UK, for much of the 1980s a disproportionately important participant in the global securities markets following the 1979 abandonment of foreign exchange curbs on portfolio investment, the institutional allocation to overseas assets appears to have peaked out, with the typical pension fund having an exposure of almost 30 per cent.

How big are these international securities markets? We are dealing in international telephone numbers here, but the IMF estimates that the value of publicly-traded debt and equity around the world is of the order of $24,000bn. Some $14,000bn of this is managed by investment institutions and a different agency, the United Nations, has calculated that $2,500bn is held on a cross-border basis.

There are different theories about the right degree of international exposure.

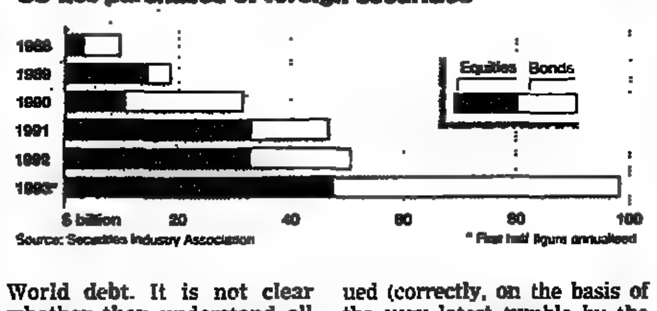
Some arguments are based on concepts of diversification, through which a better balance of risk and return can be obtained so long as the different national markets have only a low degree of correlation. Others are based on matching theories, so that the appropriate international exposure for a pension fund, for example, is linked to the proportion of imports in the basket of goods and services that the future pensioner can be expected to consume.

Whatever the details of the logic, the broad brush conclusion is that overseas diversification is more important in a small, open economy than in a large, closed one where a broad range of investment opportunities is available in the domestic markets.

Strategic judgments are subject to tactical modifications, however. The impetus of the current US portfolio outflows has been derived from perceived declining value for money in US securities markets. Long Treasury bond yields fell below 6 per cent at one stage this year, prompting an intensified search for higher returns elsewhere. Dividends and price-earnings ratios on US equities have been at historically unattractive levels, again leading to a renewed inspection of international opportunities.

Some of the effects have been quite strange. US pension funds have found it hard to invest in domestic bonds which meet their actuarial return requirements, and so they have been buyers of substantial volumes of Latin American and other Third World debt. It is not clear whether they understand all the risks they are taking - although probably such securities should be seen as replacing domestic junk bonds rather than US Treasuries.

US net purchases of foreign securities



Source: Securities Industry Association

* First half figure annualised

US mutual fund investors, meanwhile, have been drawn overseas for straightforward reasons by the performance figures. Most of the top-performing mutual funds earlier in the year were international specialists, and investors have recently been putting nearly half of their new money into overseas stock and bond funds in the hope of capturing extra performance.

Although American investors have stayed light in Japanese equities, which they have judged to be still very overvalued (correctly, on the basis of the very latest tumble by the Tokyo market), they have been active in driving up stock prices in Continental Europe and many less developed countries (or emerging markets, as they are somewhat tendentiously named).

The greatly strengthened US interest in global securities markets has created substantial opportunities for US-based investment management firms to develop their international business.

This is putting competitive pressure on some of the London managers who have until now been able to exploit a reputation for global skills almost unchallenged.

US pension plan sponsors, for instance, find it less necessary to hire their global specialist expertise in London than they used to.

London remains a leading centre for global equity management, however. According to Technimetrics, which runs an investment management database, equities worth $530bn were managed out of London at the end of last year, almost as much as the $580bn of equity portfolios being run in New York. Boston came some way back with $270bn.

Given the much higher overseas weightings in the London portfolios – probably 30 per cent against 7 per cent in the US – the role of London is considerable, especially when backed up by the $110bn or so controlled in Scotland.

The biggest centre of equity fund management by far is actually Tokyo, with funds of nearly $1,400bn, but this again is very much an inward-looking centre: its US and European equity assets of some $60bn at the end of 1992 were less than half the size of the corresponding portfolios run in London.

With bonds the picture is rather different. There is a lot of expertise in bond fund management in Continental Europe, in centres such as Frankfurt and Zurich, although London has been rapidly developing its skills in this area too.

In some respects the management of global bond funds is easier to organise than global equities. Economic and political data can be gathered into a single location and analysed according to a consistent framework.

Equities are more difficult, because local information still counts for a lot, especially in emerging markets where information may be poorly distributed and where pricing may well be inefficient.

Managers in London have too often attracted criticism for poor performance in the US and Japan. The obvious solution is to set up overseas subsidiary operations which have their ears close to the ground. But this is often not a satisfactory answer either, because global networks can be difficult to manage, and expensive.

For a big institution, the better the quality of the people in local centres around the globe, the more difficult it is likely to be to maintain central control of the strategic asset allocation process.

No magic formula has been found for international fund management. There are still plenty of opportunities for small specialists, while at the other end of the spectrum the biggest institutions struggle with multi-office telecommunications hook-ups across the time zones to allow their various investment gurus to talk to each other.

Fast-talking marketing men from quantitative boutiques, armed with glamorous global tactical asset allocation models and impeccable backtesting results, are in direct competition with traditional international banks.

With $14,000bn of assets there to be managed around the world, and more every day, perhaps everyone can find an opportunity.

Bernard Gray reviews this year's equity performance in the main markets

Seeking undiscounted recovery

At the turn of the year, opinion on the main stock markets was almost unanimous: Europe was the place to be and France was the market most likely to perform.

Interest rate cuts had powered US equities in 1991 and UK shares in 1992, and so (the reasoning ran) falling rates would do the same for continental stock markets in 1993. France was favoured because it had come further through its recession than Germany. French interest rates would fall rapidly, either because the Bundesbank would cut rates or because France would leave the ERM. Once the rates fell, France was the European economy best placed to grow.

Events, of course, did not quite pan out that way. *De facto*, France has left the old ERM – but has continued to peg its monetary policy to Germany. As a result its recession has intensified. Small wonder, then, that Paris has not fulfilled the best hopes of the bulls. The CAC-40 index is up by 13 per cent, only slightly more than the 12 per cent gain for the FT-A All-Share index. More surprising, perhaps, is the performance of the market no one liked in January: the economic news from Germany has worsened over the year, yet the DAX index is up by almost a third.

Liquidity – particularly American liquidity – is the driving force behind the rally. Low deposit rates and falling US bond yields have tempted investors into equities. Mutual fund receipts are running at record levels, with some $60bn a quarter flowing in. Yet despite hitting new highs, Wall Street has proved a dull performer and the S&P composite index has only risen by 7 per cent this year.

So about half of that money has flowed into markets where recovery prospects are not so heavily discounted. There has been heavy US buying of UK gilts, French OATs and, particularly, German bunds. Equities – their yields looking cheap by comparison – have followed.

Even more spectacular have been the gains in those Pacific Rim markets which benefit from booming regional economies and trade with China. Hong Kong equities are up by three-quarters, largely on the strength of US buying. The only market to fare poorly in the region has been Japan, which is up 1 per cent on the year thus far. It is saddled with deflationary forces, political instability and a rising yen; its problems will take years rather than months to resolve. The government's inability to agree a fiscal stimulus for the economy is further damaging shares.

The main worry now for most equity markets is the degree to which such a liquidity-driven boom can be sustained. "By the conventional measures of earnings ratios or absolute yields, shares look expensive. In our model portfolio we have gone underweight in equities," says David Roche of Morgan Stanley.

Yet because the rally was led by a lowering of bond yields and reduced inflationary expectations, the ratio of bond to equity yields still shows most stock markets to be relatively cheap. Such yield ratios should be treated with some caution since they only give strongly reliable signals near extremes. But they do at least offer some comfort that equity valuations can hold so long as bond markets do not suffer.

Andrew Bell of BZW says that slow growth rather than renewed inflation is the greater threat. Markets may thus be able to hold on to the gains of the last year. Even if inflation ticks up slightly in the US and the UK during 1994, real bond yields are still satisfactory by long run historical standards. Most countries still have substantial unemployment and output gaps, subduing inflation. Commodity prices also remain depressed.

More alarming is the prospect that growth will be too slow for companies to generate significant earnings increases. P/e ratios are high in all the important markets – and astronomical in many emerging ones. Many industrial managers continue to make exceptional provisions against further rationalisation, and trading statements are often downbeat.

Companies are also backing words with deeds. Rights issues are running at record levels in the UK and the new issue market is buoyant. Initial and secondary public offerings in the US are also running at high levels as the de-gearing of balance sheets continues. Companies are increasingly choosing to demerge or float off subsidiaries rather than make trade sales. The market is valuing prospects much more highly than most company directors. If these managers are right and earnings prospects are poor, then a correction may set in.

Set against that is the weight of money. Unlike some previous booms which relied on margin trading and borrowed funds, much of the cash coming into shares is as a direct transfer of deposits from deposits to equities. That should help prevent panic selling, but it does raise the question of whether investors sufficiently appreciate the risks they run. A 3.5 per cent yield on equities may have more appeal than a 2 per cent return on cash while markets are rising, but when shares start to fall minds may change quickly.

The other risk is that US short term interest rates may start to rise, not because of renewed inflation, but because competition for capital will increase if the recovery gathers pace. David Roche of Morgan Stanley thinks that the US economy may expand by almost 4 per cent next year, and with savings low, funds for investment may be low. If that happens the flow of US money out of international equities would be hard to replace.

Ironically, given how unpopular it was earlier this year, Germany may be the market best able to cope. Bond yields in that country may have further to fall, and the extensive retrenchment programme needed may make its capital goods exports industries competitive. The UK and US markets may also be relatively successful, if modest performers, next year. But the seemingly intractable problems of Japan, and the slow recovery in the continental economy, will make it hard for equities to make substantial gains in those markets.

Overall, equities are caught between the risk of slow worldwide growth producing disappointing earnings, and stronger US growth sucking funds back into America. The difficulty for investors now is in deciding how far they dare ride the liquidity wave before it hits the beach.

European international equity management centres (Ranked by holdings of US equities)

	$bn
London	50.2
Zurich	49.8
Geneva	31.7
Paris	19.1
Frankfurt	11.7
Basle	11.6
Edinburgh	9.4
Munich	7.9
Milan	4.7
Lugano	4.3

Source: Technimetrics

Equity fund management Top global centres

End 1992	$bn
Tokyo	1367
New York	584
London	533
Zurich	333
Boston	269
Geneva	211
Paris	189
San Francisco	171
Frankfurt	152
Los Angeles	141
Philadelphia	110
Chicago	102
Toronto	96
Edinburgh	88
Hartford Ct	77
Hong Kong	67
Houston	55
Basle	49
Montreal	47
Atlanta	47

Source: Technimetrics

The problems of Japan, and the slow recovery in the continental economy, will make it hard for equities

Barry Riley examines emerging markets

From Brady to Beijing

In September Morgan Stanley, the New York-based investment bank, led a tour of American and European institutional investors to China. A subsequent huge surge in Hong Kong share prices, as Morgan Stanley's investment strategists sharply raised their target weightings, symbolised the power of the flows of funds now moving around the globe, with an impact especially on the so-called emerging markets.

The key conclusion – according to a subsequent 80-page report, exclamatorily entitled "China!" – was that "investing in China's future will be the world's most profitable investment opportunity for the next 10 years".

History may well show that the hype associated with the Morgan Stanley trip marked a temporary peak in the fortunes of the Hong Kong market. By mid-November Morgan Stanley was reducing its weighting again, apparently taking something less than a ten-year view.

Investors in emerging markets are seeking high returns to offset the generally high risks, and after a prosperous few years they are confident that the rewards are there. For instance, as Mr John Mullen of the Federal Reserve Bank of New York points out in a recent study, annualised equity returns averaged more than 20 per cent over the years 1976-92 in Argentina, Chile, Mexico, South Korea and Thailand. Developed country returns, in comparison, were in the 14-17 per cent range over the same period.

The current emerging markets boom reflects the coincidence of two, maybe three, favourable trends. There has been a general outflow of capital from the US, partly reflecting greater international diversification by pension funds and partly, also, a search for value by mutual fund investors who have embarked on an unprecedented shift towards international bond and equity funds.

Second, the developed markets happen to have become relatively unappealing. Economic growth in Japan and Continental Europe is currently zero or even minus something. In many countries, bond interest rates have slipped to levels not seen for many years, and US pension funds are having trouble in reaching their actuarial rate of return targets by investing in conventional US Treasury or corporate bonds. For example, each 1 percentage point fall in bond yields increases the deficit of General Motors' pension plan by $5bn-$6bn.

The focus of global investors has therefore shifted to developing countries, where economic growth rates are still high – often 6 per cent a year in Latin America and parts of the Far East. Indeed, there is a fashionable theory that the economic momentum of south east Asia is now strong enough – especially as a source of cheap manufactures – to be causing a realignment of the global economy.

The emergence of China is a key element in this argument. India and Indonesia, with big populations, also have great potential. If relatively small nations such as South Korea, Taiwan, Singapore and Thailand could create a significant impact, how much more dramatic will the changes be when the giants of the region really get going?

Hence the theories of investment strategists that global equity investors should search for growth in these fast-expanding emerging markets, while the uncompetitive developed world will be troubled by price deflation and economic depression (although developed country bond prices may benefit from low inflation).

The third factor that has encouraged investment in emerging markets relates in a rather less specific way to favourable political developments. Many Third World countries have dumped socialism and adopted market-oriented policies much more acceptable to international investors.

This trend has not yet done much to encourage flows of capital into Eastern Europe or Africa, where the political obstacles are judged to be too great for the time being. But Latin America has benefited tremendously, and is currently receiving large flows of capital from the US.

After the protracted insolvency crisis of the 1980s, most Latin American countries are now regaining their creditworthiness, especially after the Brady-type debt restructurings. For instance, American investors bought $1.4bn worth of Mexican bonds in 1992 – and stepped that up to $2bn in the first half of 1993. Bigger sums still are involved in equities – but the political and financial frameworks of many countries remain fragile.

So risks remain, but investing in emerging markets is no longer primarily the occupation of pioneers – the kind of lone prospectors who would fly into Bangkok or Santiago, aiming to be the first foreigner investors in town.

A global infrastructure is being built, so that today international equity and bond placements are quite frequently made by developing countries. Privatisation issues have featured strongly, and provide the kind of large scale and solid corporate investments that are favoured by mainstream global investors. For example, Telemex raised $1.2bn in 1991, with a listing on the New York stock exchange, and such placements reached some $9bn in 1992.

Mr Martin Quintin-Archard is managing director of emerging market debt trading at Intercapital Brokers, the London firm. "We sell Mexican CDs to Danish pension funds," he says. "It's a completely global business. We sell Peruvian debt to the Singaporeans."

Nevertheless, once investors move outside a narrow group of large, relatively liquid issues, they still need to tread carefully. Share prices can be volatile, financial reporting may be primitive or even fraudulent. Overseas investors may be confined to less-attractive classes of share capital, or cut out of attractive new issues. The quality of research will also be poor, although some investors see this as an advantage as it implies that emerging markets can be very inefficient, thus offering attractive opportunities if you know what you are doing.

Growth, however, now so hard to find in developed markets, is the fundamental attraction.

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INTERNATIONAL FUND MANAGEMENT III

As the crisis in the property sector diminishes, **Christine Moir** finds the market in better shape

Well placed to out-perform market

All the main property markets have been in crisis to some degree over the past three years.

Falling rents and demand, over-supply from the development boom of the late 1980s, recessionary squeezes throughout the broad economy and structural problems in some centres have persuaded many investors to become net disinvestors in property.

But the corner may have been turned. According to Rick Lacaille of NatWest Investment Management's property team: "The perception now is that there may be a risk in not being in property. Not that property assets will suddenly shoot ahead but the sector is now placed to out-perform steadily."

There has been a savage correction in property values across the world

The price of that change in perception has been a savage correction in property values across the world.

Over the past year that painful process has been reinforced by falling interest rates. In those centres where the dual effect has been to produce a positive yield gap between property and fixed interest, investors are returning.

Evidence is still patchy. The UK Central Statistical Office (CSO) figures for the second quarter (the latest available) inspired a wave of invective from property market professionals for suggesting that institutions had lapsed back into net sellers of £177m of property in the UK in the second quarter this year, after a spring flurry of net buying amounting to £155m.

Anecdotal evidence pointed to buying activity continuing to strengthen in the summer. But the two might not really be in dispute.

The Pru is typical in concentrating on its home market for the present. "We disinvested from Europe over the past few years and we are not planning to re-enter it. We don't feel we have sufficiently good information about the markets. In North America we are looking more actively, but we haven't done deals."

Nigel King, Salomon Brothers' head of European real estate, confirms that, for US institutions, cross-border activity has been a low priority recently. "There has been concern over currencies, the economic slow down and lease structures. On top of that, US institutions have been busy turning private pools of assets into public pools." This has mostly taken the form of repackaging property portfolios from failed savings and loans operations as quoted Real Estate Investment Trusts (REITs).

Where US investors do look abroad, Mr King says, their first port of call is London. Beyond that their preferences are – in order – Paris, Frankfurt and Madrid.

US investors are not the only ones to turn their eyes first to London. As it becomes the first important market to complete the painful correction and offer positive rates of return compared with cash and fully priced equities, overseas investors remember the virtues of the UK's uniquely long leases and upwards-only rent reviews.

In the past couple of months, says Malcolm Naish, a fund management partner at Jones Lang Wootton, competitive bidding has returned to the London market. Interest has resurfaced from German, middle eastern and far eastern investors – witness last month's sale of the headquarters of the European Bank for Reconstruction and Development (EBRD), at No 1 Exchange Square, in the Broadgate development, to Deutsche Grundbesitz Investmentgesellschaft.

David Seddon, Mr Naish's colleague, confirms that London's restructuring is the most advanced of European centres.

Price corrections elsewhere have not yet been completed. Nevertheless some markets are already reviving. In Germany lettings remain weak, but the investment side is buoyant, with local open ended investment funds sucking in DM11bn in the first nine months of 1993, compared with DM6bn for the whole of 1992. Since they must invest at least 50 per cent of income, domestic markets are now sure to be supported. Munich, Hamburg and Dusseldorf are likely to benefit first. Rents there have stabilised, while in Frankfurt and Berlin rents are still falling back from the giddy peaks of post-union euphoria.

Demand is also picking up in the Benelux countries, where rent stability has also returned. Brussels, which showed exceptional growth from 1987 until last year, is beginning to be attractive again, especially to Scandinavian investors. The four main cities of the Dutch *randstadt* have developed a positive yield gap over fixed rate mortgage money. Although they are dominated by Dutch institutions, these markets also attract cautious international funds happy with the long history of rents matching inflation.

Opinion is most divided about Paris. No investment market to speak of has existed there for the past couple of years, yet many investors remain sceptical about whether the locals have got the message and reduced prices far enough.

Others believe that the final correction cannot be far off, and that rents will bottom out by the end of this year. On this theory, France is the market for 1994, and a few institutions are already fishing at the bottom, hoping for early worms.

Spain continues to present a less than attractive front, although prices have more than halved. Madrid is simply over-built outside its historic core, which is largely closed to commercial opportunities. Rents in Barcelona, despite having fallen from Pta4,500 to Pta2,500 per sq m per month, may still not have bottomed out. And prices still produce a yield of 7.5 per cent at a time when cash offers 8 per cent to 9 per cent.

In short, Europe divides into two halves: the north already active and in some cases buoyant: inertia still ruling in France and Spain – though with France, perhaps, poised to hit bottom and bounce back.

Everywhere, however, investors' appetite will only be maintained if interest rates remain below property yields.

Peter Montagnon reports on the foreign exchange markets

Volatility is likely to continue

One of the striking features of international financial markets this year has been an outflow of funds from the US as investors there seek higher yields.

It has not been so much a question of retail money moving abroad. Small investors prefer to stick with their own market, but their push into US stocks and bonds has driven up local values to the point where institutions have felt compelled to seek better opportunities overseas.

Since this development coincides with a feeling among large institutions that they are underweight in international issues, many have begun to increase their foreign exposure to 20 per cent – or even more – of their total portfolio.

That, however, only serves to aggravate the nagging worry about the currency risk they may be running, especially given the widespread perception that, after years of cyclical decline since the Plaza agreement of 1985, the dollar may tend to strengthen once US interest rates start to rise. US investors could then see their foreign market gains wiped out by currency loss.

Besides, currency volatility in the second half of last year was as high as it had been since 1985, says Ms Margaret Waller of Pareto Partners, the London-based currency advisers. "There is no evidence that volatility is going to turn down, particularly given the changes to the ERM (European exchange rate mechanism). If anything, it's going to become more of an issue."

Thus it is no surprise that US fund managers should be expressing increasing interest in currency management techniques such as overlay, whereby currency and investment decisions are taken separately and appropriate hedging arrangements put in place for the latter.

A recent survey of US funds by Rogers, Casey, the Connecticut consultancy, shows more than half of them expected active currency management of their international investments to increase over the next three years, and 71 per cent expected currency overlay to reduce the volatility of these investments.

According to Mr Reza Viskai of Rogers, Casey, the appeal is enhanced by the perception that active currency management can add value to the portfolio. "You can actually enhance the return on your international investment," he says.

One way this can work is if investors change their hedge ratios as currency rates move, so that they increase their exposure to a strengthening currency and reduce it to a strengthening one.

Some investors go further and engage in active currency investment for its own sake, through the derivatives market. That increases the return compared with a conventional overlay which cannot use leverage, but it also increases the risk.

The slowly growing popularity of the latter approach to currencies is, however, an admission that currency decisions involve some active judgment. Using outside advice to put a currency overlay in place can provide comfort for the fund manager who does not wish to take full responsibility for the impact of exchange rate movements, but it does not provide automatic protection.

Judgments are easier to make when currencies are moving in a clear long term trend. They are harder when the waters are simply choppy, as may be the case at the moment.

Nor is an active hedging policy easy to pursue in every type of investment. Emerging market portfolios are difficult to hedge, for example, because of the limited instruments available in individual currencies, and because high real short term interest rates in developing countries would often make hedging expensive.

Indeed, the only currencies where hedging is easily available are the yen, the larger European currencies and the dollar itself.

Emerging market exposure can be hedged by using the dollar as a proxy for developing country currencies which are often linked to the US unit, but hedging by proxy can produce some nasty surprises, as some US investors found when the ERM collapsed.

While the ERM was holding together, the D-mark could count as a proxy for the smaller currencies in the system, which also, incidentally, carried higher interest rates. It was thus tempting, if only on cost grounds, to use the D-mark to hedge exposure to, say, Irish pounds or Spanish pesetas. That looked a lot less sensible when the high interest rate currencies started to devalue.

Partly because they are more used to taking currency exposure as a matter of routine, UK fund managers remain less drawn to overlay theory. "Using currency tactically is something we do all the time, but it's part of the overall iterative process," says Ms Caroline Burton of GRE. She does not believe that it makes sense to separate the decisions on whether to have exposure in yen and whether to buy European bonds.

One important relationship, the sterling dollar rate, has been remarkably stable over the past year, but that does not mean currency management does not help.

Mr Tom Crombie of Scottish Equitable says that while the Japanese market may have room to rise, the yen's appreciation against sterling has probably just about run its course.

Low interest rates in Japan mean it actually saves money to hedge Japanese exposure against a fall in the yen. Scottish Equitable has covered half its exposure in this way. Cleverly, it has also used the savings to buy an option that allows it to benefit if the currency continues to rise. That looks like the best of both worlds.

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Net purchases of foreign equities by US investors	
January-June 1993	$bn
European Union	9.2
Other Europe	2.3
Canada	2.6
Latin America	2.3
Hong Kong	1.8
Japan	2.3
Other	1.2
TOTAL	21.7

Source: Securities Industry Association

Net purchases of foreign bonds by US investors	
January-June 1993	$bn
European Union	23.0
Other Europe	1.3
Canada	7.7
Mexico	2.0
Other Latin America	-5.3
Japan	-0.7
Other	-0.7
TOTAL	27.3

Source: Securities Industry Association

US cash has driven world markets this year, writes **Richard Waters**

Wall of money rolls on

US investors, led by the country's ballooning mutual funds, have provided much of the cash that has fuelled stock and bond markets around the world this year.

The question is now: when will this wall of money subside – and what effect would a reversal have on the more overheated of the "emerging country" stockmarkets?

The move by US mutual funds to direct a larger proportion of their cash flow abroad is the latest twist in the search for higher yields which began

Interest in foreign investment has pushed up US holdings of overseas financial assets

with the flood of cash out of money market instruments and into US stocks and bonds. The flow of money abroad in earnest, from both bond and equity funds, dates from the first quarter of the year.

So far in 1993, US mutual funds have bought an average of $20bn a month of foreign financial assets, split evenly between fixed income and equity investments.

After the post-1987 lull in foreign investment, this renewed interest has pushed up US holdings of overseas financial assets: total holdings of foreign equities reached $310bn at the end of June – twice what they were two and half years before, according to the Securities Industry Association. The demand has caused a rapid growth in some US-based mutual funds. Fidelity Investments, the Boston-based mutual fund group, has seen its six-year-old international growth and income fund jump from $100m in March to $1bn now.

It is all eerily reminiscent of the pre-crash market in 1987. Then, the perception that US asset prices had become over-inflated encouraged funds to look for value – and higher yields – abroad.

The ebb and flow of interest of US investors in foreign markets is clearly seen in the rise and fall, and rise again, of some of the big foreign mutual funds.

Assets in Fidelity's main overseas fund, for instance, reached a record $3.2bn in 1987, the year of the crash. By the end of last year, the fund had fallen back to just $700-800m. This year's renewed interest, though – and the rising value of assets held in the fund, in dollar terms – has doubled it again, pushing the level back up to $1.5bn.

One difference from 1987 has been the fad for emerging markets.

Last year, US investors bought a net $5bn of shares in emerging markets, up from $2bn the previous year, while total net foreign equity purchases remained constant at about $30bn. In the first half of this year, emerging markets purchases reached nearly $4bn out of a total of $20bn.

Mutual funds have not been the first, nor the only, US investors to drive this flow of capital abroad. US pension funds have also been forced to become more adventurous in overseas investing, though foreign assets continue to account for only a small portion of their portfolios. Declining investment returns in the US and burgeoning liabilities have together forced the pension funds to be more ambitious in the search for returns.

The pressure on pension funds is not restricted to those, mainly in the steel and auto industries, which have the biggest deficits – though the extent of the underfunding has reached gargantuan proportions. The deficit in the 50 weakest funds jumped from $29bn to $38bn by the end of 1992, and will have jumped by as much again by the end of this year.

While General Motors grabs the headlines for its $14bn deficit (it expects this to become $24bn this year), the overall picture shows a general weakening in the financial position of US pension plans.

In 1988, according to Buck Consultants in the US, 95 per cent of corporate pension plans had sufficient assets to cover obligations. By the end of 1992 the proportion had fallen to 76 per cent. Over the period the average funding ratio of US plans has fallen from 158 per cent to 135 per cent.

The funding levels have fallen fast as US interest bond yields have come down (the yields provide the discount rates used to calculate the present value of the funds' future liabilities, so falling falling bond yields have boosted liabilities). Falling bond yields have also hit investment returns, putting further pressure on funds to be more adventurous in their outlook.

But what would happen if Treasury bond yields continued to climb, in turn helping to stimulate a rise in the US dollar?

The returns (in dollar terms) available in some of the emerging markets would look far less stellar, prompting a retreat by some investors. An appreciation of the dollar against the European (and perhaps Japanese) currencies would also make US assets more attractive again. And, given that the long bond yield fell to nearly 5.5 per cent this autumn, a level of 6.5 per cent or even 7 per cent may not look so bad after all.

"The US has become the fountain of liquidity for the world. One thing that will shut it off overnight is a good correction," says Mr John Hickling, manager of Fidelity's overseas fund. The Treasury bond market's losses so far are more of a hiccup than a correction, he adds – but it is a movement that is already sending jitters through stockmarkets around the world.

Artificial barriers to pension investment

EU failure to agree

Just over three years ago, the European Commission began work on a directive aimed at lifting the barriers to pension fund investment and pension rights mobility across Europe.

The goal, in line with other EC directives, was to remove the artificial barriers which countries have constructed to keep their assets at home. But while great strides towards free movement in banking, insurance and investment services have passed the critical hurdles within the EU, free movement in pension investment remains an elusive goal.

"The insurance and banking directives were more far reaching than the pension directive," said Mr Humbert Drabbe, of the Commission's DG-15, which has been shepherding the directive through the system. "And those were achieved within one year."

Why liberalising pension fund investment is so thorny, when agreement is possible on banking and insurance, remains a vexing question. But the facts are that last June, the European Commission failed to agree on terms of the directive hammered out over a two-year period, and referred it back to the EU's Internal Market Council.

Since then, several meetings of the council have been held to try to work out a compro-

There are fundamental differences in the style of pension fund provision throughout Europe

mise which will allow the directive to gain the approval of all member states. But fundamental differences in the style of pension fund provision throughout Europe and varying degrees of dependence on pension scheme assets to fund public sector deficits remain obstacles.

The draft rejected by the full council contained three key elements. First, a rule barring countries from requiring minimum degrees of investment in any category or nationality of investment. Second a rule allowing countries to set a maximum investment in any category. And third, a rule barring countries from requiring that more than 80 per cent of liabilities be financed by assets in the same currency.

This last rule, which applies to defined benefit final salary schemes, has proved to be perhaps the most controversial one of all. The directive does allow a higher ceiling of 80 per cent to apply to money-purchase defined contribution schemes.

The European Federation of Retired People (EFRP), a Europe-wide body representing pension scheme sponsors, is deeply troubled by the directive.

"We would rather have no directive than a bad directive," said Mr Koen de Ryck, permanent representative. In short, Mr de Ryck says, the directive falls far short of what is needed to help funded pension schemes achieve the kinds of returns they will need to meet retirement bills in the next century. Not only is there extensive academic research to show that currency diversification reduces risk and increases returns, but in some countries domestic markets are too small to absorb all the cash which could potentially be invested in them.

Moreover, the directive is more restrictive than what is already allowed in many EC states, thus raising the possibility that some governments will wish to roll back their relatively liberal laws and adopt those in line with the directive.

Figures from the EFRP show wide variations in the degree to which European pension schemes invest outside their home country. In the UK and Ireland, the figures are 29.98 and 35 per cent respectively, while Denmark has only 4 per cent of its assets outside the

Several member states point to the currency matching requirements of the insurance directive

country.

And while there are no investment requirements in the UK, Netherlands or Ireland, other countries do set limits both on categories of asset and non-domestic investment.

In Germany, purchases of foreign securities are limited to 5 per cent of total assets, while the total equity exposure of a pension scheme is limited to 30 per cent. Switzerland limits total equity investment to 50 per cent of assets, but foreign purchases may be no more than 30 per cent of assets. Denmark, which relies heavily on pension schemes to purchase government debt and mortgage bonds, sets a ceiling on total equity exposure at 40 per cent and foreign purchases at 15 per cent of assets.

Given these rules, it is easy to see why some EC states feel the directive goes too far. Several member states, France and Italy in particular, tried hard to raise the 80 per cent currency matching requirement to 80 per cent for all pension schemes. They point to the currency matching requirements of the EC insurance directive and ask why more liberal investment rules should apply to pensions.

Mr Emmanuel Reynaud, pensions researcher at Institute de Recherches Economiques et Sociales, the French labour think tank, said "One problem with pensions at the European level is that people do not understand each other." In France, which has almost no funded pension schemes anyway, there is no distinction between pension and insurance.

Ironically, the member states which have raised the greatest objections to the liberalising moves are those with the smallest pools of pension scheme assets. France, for instance, relies almost entirely on so-called Pay As You Go financing, in which the current generation of workers pays for its parents' retirement and has almost nothing to invest. For the French, the terms of the EC pensions directive are still academic.

With growing public sector deficits, many European governments have kept their eyes on the the potential for domestic pension pools to finance their debts. Among the factors leading to the withdrawal of the proposed directive in June was opposition from the Dutch government. While there are officially no restrictions on pension fund investment there, foreign investment for its huge public sector scheme, the ABP scheme, is limited to 5 per cent of assets. The Dutch tried – and failed – to have the APB scheme exempted from the legislation on the grounds that it is a social security system.

Similarly, the French tried and failed to have their AGIRC and ARRCO schemes classified in the same manner.

"I do not believe that there will be a pensions directive," Mr Reynaud said.

Still, Mr Drabbe of DG 15 remains much more optimistic. The Belgians, currently holding the EU presidency, are determined to achieve a directive by the end of their term. But whether it is one which truly liberalises pension investment remains to be seen.

Norma Cohen

Japanese fund managers return to market

Brokers' prayers are answered at last

A recent visit by leading Japanese brokerage officials to Ise Shrine, an important Shinto sanctuary, to pray for a recovery of the Tokyo stock market, may have failed to support share prices, but it seems to have brought Japanese institutional investors back into the market.

The recent falls in the stock market are pushing share prices to levels which make the Tokyo market's value seem reasonable. Leading life insurance companies recently said they were considering stepping

Investors are becoming increasingly wary that bond prices may be peaking out

up purchases of Japanese shares.

During the first half of the business year, sharp declines in interest rates prompted increased bond investments. However, investors are becoming increasingly wary that bond prices may be peaking out, and are searching for alternative investments.

With buying by foreign investors and public pension funds petering out, Japanese stocks failed to find support until recently. But the Tokyo market broke through the main psychological support levels in November, making stocks more attractive.

Nippon Life, the country's largest life insurance company, says it will actively buy stocks of companies with good earnings performances if the stock market continues to decline. The company bought stocks worth Y30bn in November. Officials at Sumitomo Life said the company purchased Y50bn during October and November.

Investment in *tokkin*, or specified trust funds, by insurance companies, which accounts for about 3.8 per cent of total assets, were up by 19 per cent over the last year.

Foreign investors and public funds have been the main buyers of Japanese shares. Public pension funds have been pumped into the market by the government to prop up share prices since the Nikkei plunged to a six year low in August last year.

The sharp appreciation of the yen attracted foreign investors, and foreigners have been the leading buyers since last March. However, a recent halt in the yen's price has caused profit taking; overseas investors have become net sellers of Japanese shares since the end of September.

Until recently, domestic investors invested heavily in the bond market. Life insurers, the largest category of institutional investor with total assets of Y157,000bn, actively placed funds in the government bond market. Bond yields have fallen sharply as the Bank of Japan cut its discount rate to a record low 1.75 per cent.

According to brokers James Capel in Tokyo, total investments in bonds by life insurers rose by 42 per cent during the year to June, accounting for almost half of net cash flow. Government bond investments rose by 71 per cent, while local government bond investments rose by 66 per cent.

In sharp contrast to bond investments, life insurers' attitudes to shares have been conservative. Equity investment has fallen to below 20 per cent, with only 5.8 per cent, or Y710bn of net cash flow, invested in the stock market.

The strength of the yen has taken away incentive for Japanese institutions to invest overseas. "We're trying to reduce European and US investments because of currency movements and the high prices," says a fund manager at Tokio Fire and Marine, a non-life insurance company.

Uncertainty over the Nafta trade negotiations has also been a reason to restrain allocation of assets to the US. Overseas investments have been reduced by life insurance companies over the past year by Y1,100bn to about 10 per cent of total assets.

Mr Kazuo Tamayama, fund manager at the second investment division of Yasuda Kasai Brinson Investment Management, expects to maintain a portfolio weighted heavily towards bond investments, keeping weightings in equities at a minimum. He expects a further rise in government bond prices, but does not see an upturn in the stock market and advises taking profits in equity holdings.

Meanwhile, Japanese fund managers have recently joined in the rush among US institu-

Japanese institutional investors may eventually have to invest in the Tokyo stock market

tions to invest in Asian markets, where growth potential is expected to overcome currency risk. Over Y210,000bn in Asian funds has been established this year. Nomura Investment Trust set up two large scale investment trusts based in the region at the end of October.

But Mr Jason James, strategist at James Capel, believes that Japanese institutional investors are eventually going to be forced to invest in the Tokyo stock market because of the lack of alternatives.

Some insurance companies are becoming increasingly nervous about the rise in the bond market, and are starting to take profits. Growth in corporate loans, which accounts for 40 per cent of life insurers' assets, is likely to be difficult to sustain, as demand for funds is declining. Companies have slashed capital spending, and refinancing needs for equity-linked bonds issued during the late 1980s have also peaked.

Property investments have grown strongly. Mr James believes that low interest rates and low equity weightings at financial institutions offer buying opportunities which could "represent the start of a sustainable new trend."

Emiko Terazono

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Sara Webb reviews government bond markets

Rally may soon end

Bond investors will probably look back on the early 1990s with affection, grateful for the generous profits they have reaped from the world's main government bond markets.

With the economies of the US, Europe, Japan and Australia in recession, there was plenty of scope for investors to make gains in the fixed income markets. As inflation was brought under control, there was a strong case for lower interest rates in order to stimulate the flagging economies. (Falling rates, with a low inflation background, are generally good for bond markets.)

In the first 10 months of 1993, the high-yielding European government bond markets provided investors with returns of over 20 per cent in local currency terms. Spanish government bonds showed a gain of 23.13 per cent, while Italian government bonds rose 22.45 per cent, according to Kemper Investment Management Co.

Given the strong performance of the bond markets, what is perhaps so surprising is that many institutions still place a relatively low proportion of their funds in fixed income investments. According to Caps (Combined Actuarial Performance Services), the average holding of global bonds in UK pension funds has steadily declined over the past decade. At the end of September 1993, UK pension funds held 9 per cent of their assets in global bonds (5 per cent in overseas bonds, 4 per cent in UK fixed interest). In 1982, they had nothing in overseas bond markets, but an average of 21 per cent in UK fixed income.

The question is: just how much further can the bull run in bond markets go?

Japanese yields have fallen steadily since 1991 – the official discount rate fell from 6 per cent in 1991 to 1.75 per cent in 1993, and 10-year government bond yields have declined from a high of 6.81 per cent in 1991 to a low of 3.61 per cent in November 1993. As a consequence, many international investors believe there is little more to be gained from the Japanese government bond market.

In the US, the Treasury bond market has suffered jitters recently over whether inflation is likely to pick up, fuelling expectations that interest rates could be edging up again. One international fund manager says: "We see the global government bond rally as being very close to its end. In fact in some countries - the US, and possibly the UK – it could have gone too far already."

So much of the focus now is on continental Europe, in particular the expectation that the Bundesbank will continue to bring down its key interest rates. In the early 1990s, investors felt they could hardly go wrong in Europe. The prospect of European economic and monetary union meant that European inflation and interest rates were expected to converge gradually, while investors saw little risk on the exchange rate front because of the close currency alliance of the European exchange rate mechanism (ERM).

The result was that the Bundesbank set the pace at which other countries could lower their domestic interest rates; and as the Bundesbank stubbornly refused to lower its rates as rapidly as some of the other Europeans would have liked, more and more countries were forced either to devalue within the ERM or to abandon their links, and when that failed, they opted for wider fluctuation bands.

The UK pound and the Italian lira broke free in autumn 1992, unable to bear the strain. The fluctuation bands were widened for most of the other currencies this summer.

For many international investors, these changes have had important consequences. Before the collapse of the ERM, investors had a tendency to lump the European markets into the D-Mark core bloc and the high-yielders.

With the system's collapse, they expected not only to see individual central banks using their freedom to ease more rapidly (they were largely disappointed), but they also realised that it was prudent to examine European markets on a more individual basis.

Nick Henderson, at Gartmore fund management, says: "Break-up of the ERM means we have to pay closer attention to individual countries – for example, Belgium. There the government bond market had been swept along on hard core currency status, but following the ERM break-up, spreads have widened and currency has remained weak."

Costs do make a difference, writes Norma Cohen

Service by fractions

In an industry which defines *the difference between success and failure in fractions* of a percentage point, costs make a difference for sharp-eyed clients asking whether the fund manager has under- or out-performed the industry median. High on the list of costs are those required for custody.

"Typically, all the leading fund managers in the UK had their own custodians," says Mr Nigel O'Sullivan, partner in the investment practice at consulting actuaries Bacon and Woodrow. "It was a fairly cosy relationship and there was no unbundling of services because pension fund trustees did not know what a custodian was."

The recent publication of a report from the UK government's advisory panel on occupational pension law, headed by Professor Roy Goode, urged that the appointment of custodians should be a function delegated to trustees, a move which Mr O'Sullivan believes will only serve to heighten awareness of just how much that service costs.

"We came across one European bank that was offering clients interest rates of three percentage points below base rates on cash balances of £250,000 or less," he says. Furthermore, in the course of advising clients, Mr O'Sullivan says he has come across custodial banks which habitually credit client accounts for transactions the maximum number of days after execution which the client's contract allows.

Mr O'Sullivan is one of a growing number of UK pension fund consultants specialising in advising clients how to get the most out of their custodian at the lowest cost. Consultants of a similar stripe have been carrying on a land office business in the US for years, with the result that prices for the basic master custody service have been driven down to barely profitable levels.

Consultants urge clients to consider the various components of a custodian's service, and examine whether each can be obtained more cheaply through the use of several providers. Awareness about fees is accompanied by increasingly complex client needs. The use of derivative instruments for sophisticated hedging strategies is becoming an accepted element of investment. Investment strategies around the world increasingly require cross-border fund movements.

Emerging markets have spurred demand for the 'global custodian'

A study prepared by InterSec Research Corp, a pension fund research group, concludes that US pension funds transferred nearly $50bn abroad in the first six months of 1993. This compares with $30bn which went abroad in the whole of 1992. Of that, $2bn went into emerging markets. By contrast, at the end of 1992, US investment in emerging markets was $5.4bn in total. The later development has in particular spurred demand for the so-called global custodian – the custodian who can service the client's needs in any number of centres, especially investments in emerging markets. According to Philips and Drew Fund Management's 1993 survey of investment industry trends, there has been an increasing use of global custodians by clients. Some say this may be somewhat misleading. "They are choosing custodians with global capacity," says Mr Michael Borkan, vice president at Bank of New York's custody business. "But what they really want are a series of regional custodians."

Mr Simon Murray, consultant at Davis International Banking Consultants, says that some European banks still do not offer interest on cash balances, and have tended not to have made the significant systems investments, thus forcing them to be more labour intensive and more expensive.

But Mrs Adrienne Cooper, partner at Coopers & Lybrand, the accountancy firm, says that price is typically not at the top of the list of criteria for clients selecting a custodian. Mrs Cooper, who carried out a comprehensive study of custodial services in Britain for a leading UK insurance company, says: "People talk about all these added services. But what they really want is to have all the basic stuff done well. Better than if they had done it themselves.

"But it is important to say that most of the outfits contracting for custodial services don't know what it is costing them."

One UK pension fund which has loudly advocated greater transparency in custodial charges is ESN, which manages the £12.5bn pension scheme of the privatised electricity companies. "You appoint a custodian and you appoint a fund manager on the basis that you have clarity of responsibility and clarity of cost," says Mr Brian Matthews, finance director.

Tracy Corrigan looks at derivatives

Slow to catch on to their potential uses

The recent expansion of derivatives trading has yet to feed fully into the fund management industry. International fund managers have been slower *to catch on to the potential uses of* derivative instruments than the treasurers of large international companies, most of whom actively use swaps and options to manage their exposure.

Fund managers now account for a relatively small portion of the $140,000bn-worth of futures contracts traded annually on the world's exchanges, and an even smaller portion of the notional $4,500bn outstanding in the over-the-counter (OTC) swaps market. (The OTC market consists of specially tailored, bi-lateral agreements between two counterparties, rather than contracts traded on and cleared on exchanges).

A gradual evolution is in progress, but most fund managers remain extremely cautious, even sceptical. However, many of them have woken up to the advantages of using derivative instruments for asset allocation. Because futures contracts traded on exchanges are more liquid than their underlying cash markets, fund managers often buy, particularly, stock index futures, when they have decided they like a particular market but are not yet sure which stocks they wish to buy.

Many fund managers go no further. Some are concerned at the lack of liquidity of some OTC instruments. Most fund managers mark their positions to market on a daily basis, but it may be difficult to realise that profit by selling on the option, because of the market's illiquidity.

The difficulties involved in performance measurement can prove a deterrent. And some trustees still do not allow institutions to use derivatives. "It would be much easier if we could use derivatives across the board, but we can't," says one manager.

These difficulties are exacerbated by a lack of familiarity with these instruments. It is widely accepted that the US fund management industry is at least a few years ahead of Europe in this area.

Often, the institutions most sophisticated in using derivatives have appointed a specialist head of derivatives, and/or employed staff with a background in derivative markets. One such is Mr Rob Gambi, head of fixed interest and currencies at AMP Asset Management, the UK-based fund management group owned by the Australian insurance company.

The complexities of options pricing hold no mystery for Mr Gambi, a former derivatives specialist at a bank who used to price options for a living. For him, derivatives are "multi-dimensional", allowing more complex views to be expressed. When an investor buys bonds or shares, he takes the view that they are going to go up. With derivatives, he can take the view that they are going to go down – and within a certain period of time.

There are a number of ways, other than straightforward asset allocation, in which some fund managers are using derivatives.

● WRITING OPTIONS:

If a fund manager has an overweight position in a particular market, and thinks he may already have caught most of the rally, he may decide to write call options against that position.

This is called covered call writing. It is common among UK fund managers, who frequently write options against their UK equity portfolios. Writing, or selling, options earns additional revenue, thereby enhancing returns, but if the fund manager does not already hold the underlying securities it can be a dangerous game.

● HEDGING:

If a fund manager expects a market to rally, without being certain when, derivatives can be used for protection. *If a bond fund manager is underweight* in US Treasuries and overweight in European bonds, because he is bullish on the European market but concerned that European bonds will under-perform in the next three months, he can hedge by buying options on the spread between the two markets.

The more specific the hedge, the cheaper it is to buy – you are only paying for what you get. So knock-out options – which expire if the price of the underlying security falls below a certain level – have been popular.

● RISK ENHANCEMENT:

Derivatives can be used to adjust risk in ways which are not possible in the cash market, and which may involve taking on new risk, but will pay off in several different scenarios.

"Nine times out of 10, forward contracts are the best instruments for currency hedging. Options are more complicated and less liquid," says Mr Andrew Maclaren, assistant director at UBS Asset Management in London.

Mr Gambi says he is more likely to use derivatives for bonds than for currencies: "Let's say I'm fully invested in global bonds, but I want dollar not D-mark exposure: I can hedge forward my D-marks into dollars. That is what I would call hard exposure - you make money all the way up and lose money all the way down."

COMMODITIES AND AGRICULTURE

Precious metals put on a spurt

By Kenneth Gooding, Mining Correspondent

Precious metals went through a brief torrid interlude yesterday afternoon as a sudden burst of buying on the New York Commodity Exchange sent prices spurting upwards. Silver lead the way by gaining nearly 4 per cent to touch $4.62 a troy ounce at one point, gold jumped to $377 an ounce and platinum reached $374.

Analysts said buying, mainly by New York funds, was prompted by the announcement of economic data showing a surge in construction spending and a big rise in the National Association of Purchasing Managers' index. These data suggested a strong US economic recovery, which might eventually cause a rise in inflation, they pointed out.

The surge spilled over to trading in London where the shorts – or those who had sold metal they did not own in the expectation of buying it later at a lower price – rushed to cover their positions.

However, the excitement died away as quickly as it appeared.

One trader suggested that the funds pushed prices up through various important points on the technical charts and, having achieved their objectives, allowed prices to drop back again.

Gold closed in London up $4.45 an ounce at $375.45, silver ended at $4.57¾, up 13 cents an ounce, while platinum closed only 10 cents up at $366.75.

UK poultry industry 'at disadvantage'

By Deborah Hargreaves

More stringent application of European Union rules in the British poultry industry is costing companies around £60m more than their competitors in other member states, according to the National Farmers' Union.

Mr Norman Brook, NFU poultry chairman, told a House of Commons select committee that he believed the UK industry's costs were £30.4m higher than those of French companies. In addition, he estimated that tighter salmonella rules added 4p a dozen to the cost of producing eggs in the UK.

UK poultry producers were operating on very low margins, which gave them little ability to invest in new equipment in line with tighter regulations on animal health, according to Mr John Maunder, managing director of Lloyd Maunder, poultry producers.

"I believe we lead Europe in animal welfare regulations. The industry is making a massive investment by January 1995 in new equipment," he told the committee. The industry must bring its equipment up to meet standards set in the EU's Battery Cage directive which Mr Maunder estimated would cost about £10 a bird.

Poultry industry representatives told the committee that a settlement of the General Agreement on Tariffs and Trade would put further pressure on producers with an expected large increase in imports to the EU. In addition, restrictions on export subsidies that would accompany a Gatt agreement could see French producers finding it harder to export outside the EU and diverting shipments to the UK.

Separately, the British Egg Industry council told the committee that annual egg consumption in the UK had dropped from 235 a person to 177 over the past 5 years. Free-range egg market share had risen to 15 per cent over the same period, and was expected to grow to 20 per cent by the end of the decade.

Farm exit bonds 'could save EU £3.8bn a year'

By Alison Maitland

The European Union could save about Ecu5bn (£3.8bn) a year in agricultural spending in the short-term under a bond scheme that would replace open-ended subsidies for farmers, according to a study published today.

The study, published by the European Policy Forum, a London-based think-tank, examines options for so-called exit bonds, which would guarantee farmers a sum equivalent to the subsidies they replace, but only for a fixed period, in this case 15 years.

After that, all financial support would end and farmers would be subject to market forces.

Barclays Bank economist Mr Philip Poole, who wrote the report, said recent reforms of the common agricultural policy did not go far enough.

"Medium term budgetary savings are unlikely, particularly in view of the prospects for [EU] enlargement to include agricultural producers in central and eastern Europe," he said. "Reconciling the revamped CAP regime with global trading rules is also problematic under existing plans for reform."

His report draws on proposals put forward by Prof Stefan Tangermann, applying them to a specific sector – UK wheat production – in order to examine their likely impact.

Mr Poole suggests that farmers could choose between two kinds of exit bonds. The first, income-only bond, would pay interest in the form of a coupon for a fixed term, while the second would provide no income but grow in value until maturity.

The bonds would be tradeable on a secondary market, so that farmers who wanted to leave the industry could sell them and re-invest in some other activity, such as leisure facilities. Alternatively, farmers could use the bond as collateral for a loan to restructure their holdings, for example by cutting food production and diversifying into a non-farm business.

"The only rationale for continuing the subsidisation of agriculture is that farmers have invested over an extended period on the basis of previous EC policy and you need to give them time to readjust," said Mr Poole. "This gives them that opportunity with a guaranteed period of subsidy but then they have to live with the market."

Mr Poole suggests that the near-term annual savings to the CAP budget, standing at Ecu35bn this year, would be about Ecu5bn, assuming that 15 per cent of farmers choose the second bond option to take advantage of its higher sale value in order to leave the industry. This is because subsidies to those farmers would end immediately and the EU would not have to pay out on the bond for 15 years.

Exit bonds would also remove the need for set-aside, since they would bring about the shrinkage in arable production which set-aside is designed to achieve, Mr Poole said.

Reform of the Common Agricultural Policy: the use of exit bonds. European Policy Forum, 20 Queen Anne's Gate, London SW1H 9AA. Free.

Estonia's hot rock industry shows its age

The republic's oil shale sector faces severe cost problems, writes Matthew Kaminski

Large black mounds dot the flat landscape along the southern Gulf of Finland coast. These mountains of ash are sombre monuments to Estonia's oil shale industry and the environmental damage it has inflicted on the area over the past 70 years.

Ecological questions are less peripheral than they were under Soviet rule, but the newly independent state is being forced to restructure its energy sector in the face of mounting economic costs.

Thanks to oil shale, Estonia enjoys a measure of self-sufficiency rare among former Soviet republics. The fossil fuel covers half the country's energy needs, including all electricity demand, according to the International Monetary Fund. Worryingly, however, output has been falling – from the equivalent of 5m tonnes of coal in 1990 to 4.22m tonnes in 1992. The drop would be even more marked but for sustained electricity exports to Latvia.

Age and inefficiency are the chief culprits at all three levels of production: mining, retorting and upgrading.

Estonia's only natural resource, the oil-bearing rock, is mined at three open pits and two underground mines near Kohtla Järve, an hour's drive east of Tallinn, the capital. Since the 1920s, plants have turned the fossil fuel source into liquid fuel and electricity by retorting, or heating, and then upgrading.

Because of high costs, the mines are not extracting fast enough to meet demand. Imported explosives are too expensive, accounting for a full third of all costs associated with oil shale production. Little can be done about that, but the consultancy Arthur D. Little said in a recent study that costs could be reduced by buying new machinery and selecting mining sites more wisely.

The retorting operations, using ancient gas-generators, also desperately need new equipment to improve efficiency. Normally, state-owed enterprises would be privatised to do this, but the retorts are not hot items. "They're awful. Nobody will buy it," says Mr Jaan Uustalu, of the Estonian ministry of economics.

Instead the government plans to sell off subsidised divisions at two of the three chemical factories, such as the ammonia and urea producing operations, and keep profitable production of shale oil, the fuel product, in state hands for another ten to 15 years. Shale oil production at present fails to meet its profit potential, reckoned at around $60m a year, because the other divisions eat the money.

Kiviöli and Kohtla Järve, the two plants, also face staff reductions. The larger Kohtla Järve plant, with 3,500 employees, would ideally have to lay off half the employees to be profitable, according to Mr Uustalu.

Kiviöli is starting to move into the black after recently cutting its workforce from 2,500 to 1,100. The small plant's advantages are illustrative: it operates 400 tonne retorts, rather than the 1,000 tonne units used at Kohtla Järve, to get better yields and higher quality of shale oil and to use less energy.

The broader economic question, hotly debated in Estonia, revolves around price. Since spring producers have pressed for a rise in the state-set lump oil shale price, which is below cash flow minimums needed by the mines. The government did raise the price from EKr36 to EKr45 a tonne on October 21, but only after pressure from Eesti Energia, the state electricity company.

Mr Uustalu estimates that, to reflect true cost, the price must go up to EKr65 per tonne. But the government fears this might stoke inflation. The latest increase electricity raised costs by some 27 per cent, compared with an inflation rate of just 5.6 per cent.

The processing factories are also worried. Arthur D Little found Kiviöli could afford to buy oil shale at prices up to EKr110.5 a tonne but Kohtla Järve would be forced into bankruptcy if the price was set at EKr65 a tonne.

At current low prices, however, the industry as a whole suffers. Declining output hurts lucrative exports: on the world market, shale oil fetches $75 a tonne, raised to $105 a tonne in Rotterdam by the inclusion of transport costs.

More importantly, if mined and processed correctly, oil shale could help make up for the drop in Russian oil imports by supplying at least a quarter of domestic fuel needs, up from below 20 per cent today. Last year Finland helped the country through the tough winter with a 100,000-tonne delivery of heating oil, but Estonia needs a more fecund domestic fuel industry.

Western governments are equally, if not more, worried about the high environmental cost. Oil shale mining has left a legacy of pollution around Kohtla Järve with an estimated 350m tonnes of untreated water pumped out of the mines annually. The Purtse River is biologically dead and local bathers recount coming out of area streams covered with black ash.

The large ash mounds are another a problem: they have a 10 per cent organic content, which slowly leaks out.

Finland allotted FMr37.4m ($6.5m) last year to help ease environmental problems in Estonia, oil shale pollution chief among them. But no active cleaning operation is under way. "Everyone's there looking at it and thinking about it. The hotels are happy", comments an Estonian government official.

The last, less discussed, alternative would leave the oil shale in the ground until the price went up or a less costly way was found to develop Estonia's unique resource. But few in Tallinn can afford such patience.

Pakistan set for another disappointing cotton crop

By Farhan Bokhari in Islamabad

Pakistan's cotton output will be at least 15 per cent below target this year.

"We will not be able to achieve our targets and we may stay in the range of 10m bales," said Mr Chaudhary Ahmed Mukhtar, the minister of state for commerce. That would represent a shortfall of 2m bales.

Pakistan had expected a bumper cotton crop of over 12m bales, but large losses were caused by inadequate rainfall and a subsequent pest attack in the province of Punjab. Last year the crop was 3m bales below target because of widespread floods.

Mr Mukhtar was still hopeful, however, that some of the production loss would be compensated by higher international prices. Pakistan expects that its leading cotton market competitors, such and India and China, will also face shortfalls because of crop damage.

British Gas in Polish deal

By Christopher Bobinski in Warsaw

British Gas has been granted oil and gas exploration rights in a 9,000 sq km area 100km west of Warsaw. The British company is expected to spend US$20m over the next three years on the project.

Amoco was granted petroleum exploration rights in Poland just over a year ago and is also to drill for coalbed methane in Silesia in projects worth a total of US$30m.

The Polish government is also talking to a Shell-Exxon consortium on exploration rights in an area east of Poznan, while a new tender closing next April has just been opened for sites further east of Poznan and east of Gdansk.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1054.5-5	1075-5.5
Previous	1042.5-3.5	1063.5-4
High/low		1079/1062
AM Official	1053-3.5	1074.5-5
Kerb close		1078-5.5
Open int.	269,092	
Total daily turnover	34,316	

■ ALUMINIUM ALLOY ($ per tonne)

Close	928-33	950-5
Previous	921-4	945-8
High/low		955/950
AM Official	923-4	948-50
Kerb close		948-53
Open int.	2,532	
Total daily turnover	737	

■ LEAD ($ per tonne)

Close	430-1	443.5-4
Previous	419-20	432.5-3
High/low		448/436
AM Official	428.5-9.5	442-3
Kerb close		441-2
Open int.	27,414	
Total daily turnover	7,732	

■ NICKEL ($ per tonne)

Close	4680-5	4735-40
Previous	4650-5	4705-8
High/low		4750/4685
AM Official	4635-40	4690-700
Kerb close		4730-5
Open int.	48,275	
Total daily turnover	7,110	

■ TIN ($ per tonne)

Close	4625-35	4675-85
Previous	4580-5	4630-40
High/low	4628	4720/4665
AM Official	4625-8	4675-80
Kerb close		4710-5
Open int.	15,016	
Total daily turnover	2,826	

■ ZINC, special high grade ($ per tonne)

Close	938.5-7.5	954.5-5.5
Previous	924-5	942-3
High/low	935	957/944
AM Official	935-5.5	953-3.5
Kerb close		955-5
Open int.	81,282	
Total daily turnover	23,618	

■ COPPER, grade A ($ per tonne)

Close	1643.5	1666-8.5
Previous	1629-30	1653.5-4
High/low		1671/1651
AM Official	1631-1.5	1654-4.5
Kerb close		1669-70
Open int.	201,993	
Total daily turnover	87,789	

■ LME AM Official £/$ rate: 1.4788
LME Closing £/$ rate 1.4824

Spot: 1.4806 3 mths: 1.4736 6 mths: 1.4670 9 mths: 1.4634

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Dec	75.75	+1.50	75.90	74.40	9,277	2,415
Jan	76.10	+1.85	76.00	74.50	1,513	72
Feb	76.30	+1.60	-	-	950	4
Mar	76.55	+1.55	76.70	75.05	36,399	4,575
Apr	76.75	+1.50	76.45	76.35	415	25
May	76.95	+1.50	77.00	75.80	6,564	158
Total					67,149	7,267

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	375.20-375.70	
Opening	370.00-370.40	
Morning fix	370.00	249.698
Afternoon fix	373.10	251.924
Day's High	375.40-375.90	
Day's Low	368.90-369.40	
Previous close	369.80-370.20	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....2.42 6 months 2.62
2 months ....2.51 12 months 2.68
3 months 2.56

Silver Fix	p/troy oz.	US cts equiv.
Spot	299.45	442.85
3 months	302.85	445.85
6 months	306.55	449.55
1 year	313.55	457.75

Gold Coins	$ price	£ equiv.
Krugerrand	371-374	250-253
Maple Leaf	384.45-386.90	
New Sovereign	86-89	58-61

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls; cents/US galls)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; cents/US galls)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LCE (£ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LCE (£/tonne)

Jan	130.00	-	-	-	2	-
Nov	85.00	-	-	-	-	-
Mar	105.00	-	-	-	-	-
Total					1,312	230

■ FREIGHT (BIFFEX) LCE ($10/index point)

Dec	1242	-8	1245	1240	251	16
Jan	1247	-2	1248	1248	226	12
Apr	1265	-1	1265	1265	1,070	20
Jul	1147	-	-	-	698	-
Oct	1325	-	-	-	216	-
Jan	1327	-	-	-	176	-
Total					2463	48

	Close	Prev
BFI	1248	1283

COTTON

Liverpool- Spot and shipment sales amounted to 197 tonnes for the week ended 26 November, against 60 tonnes in the previous week. Improved demand brought moderate purchases, mainly in Bali and Cameroon descriptions. Benin growths made some headway.

JUTE

September/October c and f Dundee: BTC $465, BWC $480, BTD $440, BWD $455. c and f Antwerp: BTC $455, BWC $455, BTD $425, BWD $425.

SOFTS

■ COCOA LCE (£/tonne)

[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LCE ($/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

[illegible]

■ WHITE SUGAR LCE ($/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Oct	10.70	+0.20	10.78	10.51	11,368	277
Mar	10.70	+0.19	-	-	514	28
May	10.76	+0.19	-	-	5	5
Total					94,280	8,143

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	61.60	+0.06	61.50	60.90	854	49
Mar	62.08	-0.15	62.47	62.05	23,164	3,3034
May	63.02	-0.08	63.40	63.00	6,706	574
Jul	63.95	-0.10	64.10	63.75	4,088	277
Oct	62.85	-0.09	63.00	62.90	908	99
Dec	62.75	+0.01	62.75	62.65	4,089	118
Total					40,076	4,181

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jan	98.80	+1.75	99.10	97.55	11,739	2,228
Mar	101.50	+2.00	101.50	100.20	6,831	765
May	103.75	+1.95	103.90	102.50	1,854	71
Jul	106.05	+1.95	106.25	106.00	623	26
Sep	107.55	+2.05	-	-	649	2
Nov	108.40	+2.00	-	-	113	1
Total					25,769	3,093

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Dec 1	Nov30	month ago	year ago
1621.4	1629.0	1612.2	1674.1

■ CRB (Base: 4/5/56=100)

Nov 30	Nov 29	month ago	year ago
217.98	220.00	-	202.93

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

[illegible]

■ COPPER (Grade A) LME

[illegible]

■ COFFEE LCE

1150	121	126	2	34
1200	77	95	8	63
1250	41	69	22	77

■ COCOA LCE	Mar	May	Mar	May
950	124	131	16	28
1000	89	99	33	33
1025	61	72	55	55

■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1400	56	66	12	28
1450	26	50	30	50
1500	9	30	66	60

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jan)		+or-
Dubai	$12.65-2.82	+0.19
Brent Blend (dated)	$14.37-4.39	+0.21
Brent Blend (Jan)	$14.46-4.48	+0.14
W.T.I. (1pm est)	$15.41-5.44	+.105

■ OIL PRODUCTS NWEprompt delivery CIF (tonne)		
Premium Gasoline	$153-155	-2
Gas Oil	$163-164	-5
Heavy Fuel Oil	$55-60	
Naphtha	$141-144	-1
Jet fuel	$178-180	-3

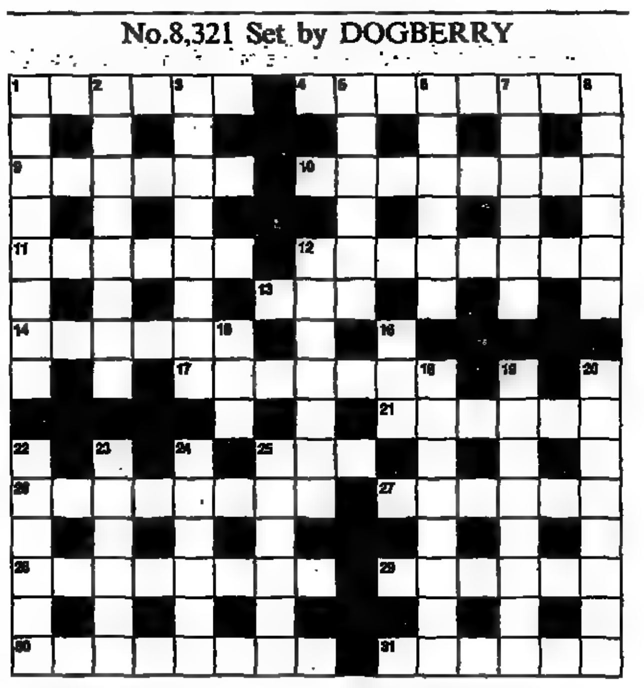
Petroleum Argus Estimates

■ OTHER		
Gold (per troy oz)♣	$375.45	+4.45
Silver (per troy oz)♣	457.50c	+13.0
Platinum (per troy oz.)	$366.75	+0.10
Palladium (per troy oz.)	$121.40	-2.10
Copper (US prod.)	79.5c	+0.5
Lead (US prod.)	32.75c	
Tin (Kuala Lumpur)	11.70r	+0.06
Tin (New York)	215.5c	
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	119.31p	+0.19*
Sheep (live weight)†♠	91.24p	+2.08*
Pigs (live weight)	71.41p	-1.28*
Lon. day sugar (raw)	$262.10	-3.30
Lon. day sugar (wte)	$267.50	-2.50
Tate & Lyle export	£266.50	+0.50
Barley (Eng. feed)	£108.50y	-1.0
Maize (US No3 Yellow)	£123.00	
Wheat (US Dark North)	£175.00	
Rubber (Jan)♥	61.25p	+1.50
Rubber (Feb)♥	61.50p	+1.50
Rubber (KL RSS No1 Jul)	206.0m	
Coconut Oil (Phil)§	$505.0x	+7.5
Palm Oil (Malay.)§	$382.5y	
Copra (Phil)§	$325	
Soyabeans (US)	£199.0	-1.0
Cotton 'A' Index	66.75c	+0.15
Wooltops (64s Super)	340p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Mar. z Jan. v Sep/Oct. † Dec/Jan. x Mar/Apr. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

No.8,321 Set by DOGBERRY



ACROSS

1 Fantasised about trade mark, initially (6)
4 Faculty's back in check? Check (8)
9 Cold fish in foul house (6)
10 Piece of a piece of activity (8)
11 Meal over again? (6)
12 It may end going off with a bang (8)
13, 25 Protect member of compiler and solver .... (6)
14 .... Union when the foreign fellow comes first (6)
17 Crawler's ecstatic about orthodox way of speaking English (7)
21 Apparently the same thing twice (6)
25 See 13
26 Licence for fathers to have fun (8)
27 Go-between for revolutionary communist getting little sleep (6)
28 Tawdry churchman wanting work in stone (8)
29 Rush job (6)
30 Having done right, backed into your lament (8)
31 Introduction to sailing boat provides a little comedy (6)

DOWN

1 Girl finding precise locality (8)
2 Retired knight beheaded, a paragon (8)
3 Doctor girls' treacle (8)
5 Dogberry rises, receiving £25 from Macbeth, say (6)
6 The proclamation of the city (6)
7 Vinegary Spartan missing point (6)
8 Pole to treat broken jaw (6)
12 Prod nonconformist? (4-3)
15, 16 Member at close of story (6)
18 Axeman, a bellicose character (8)
19 Following orders, order one in to make an impression (8)
20 Fish bearing craft elevated by poet (8)
22 Other-worldly brio (6)
23 Where constant pressure is hindrance to love (6)
24 Alternative drug getting leaders confused (6)
25 Bloom or get told off (6)

Solution 8,320

ACHIEVER MAIDEN
C U V A R E O
TANDOORI UMLAUT
I G K M S I D E
VARIEGATE SALOP
E Y R A T I A
WALK STIPEND
F W R C R E
INHERIT OVER
L E O I A T S
MIAOW MARCHPAST
S T R E S A K A
THETOP EMISSION
A A O A T N C
RARITY INVEIGLE

JOTTER PAD

هكذا من الأصل

LONDON STOCK EXCHANGE

MARKET REPORT

Equities scale new peaks in very heavy trading

By Terry Byland,
UK Stock Market Editor

The London stock market surged to new peaks yesterday in the most successful trading session of the year as investors welcomed a UK Budget seen as sustaining economic recovery and opening the way for further cuts in UK base rates in the new year.

The FT-SE 100 Index ended the day 66.3 points up at a new closing peak of 3,233.2, showing the biggest daily advance since September 1992 when the stock market was celebrating sterling's departure from the European exchange rate mechanism. Buying across the wider range of the market took the FT-SE Mid 250 Index ahead by 80.7 to 3,565.6, also a new peak.

One seasoned trader described trading volume as "phenomenal – the heaviest I've seen in 17 years." European and US investment funds were heavy buyers of UK equities, spurred on by upgradings of the London market by two of the largest US investment banks. Seaq volume of 1,235.1m shares dwarfed Tuesday's 576.4m.

The absence from the Budget of the feared attack on pension fund tax and dividend status played a significant role in the hurried reversal of some bearish positions taken in the equity futures markets during the week before Budget day.

Dealers arrived in the City early yesterday morning and the market broke through to new peak territory before the official opening, and without waiting for the futures sector to provide a lead. Between 8.00am and 8.30am, when screen prices are "indicative only", the FT-SE Index touched a nominal 3,202.

Account Dealing Dates		
*First Dealings:		
Nov 15	Nov 29	Dec 13
Option Declarations:		
Nov 25	Dec 9	Dec 23
Last Dealings:		
Nov 26	Dec 10	Dec 31
Account Day:		
Dec 6	Dec 20	Jan 10

*New time dealings may take place from two business days earlier.

The Index dipped back to 3,197 but quickly rose again when the December future contract opened at a substantial premium. Footsie 3,300 was quickly recaptured and from then on, shares forged ahead strongly, pausing only briefly as the premium on the December contract ebbed and swayed.

London was also sharing in the general advance in other European bourses and benefited from a firm start on Wall Street, which gained 18 Dow points in UK trading hours.

At best, the Footsie was 83.2 points ahead at 3,250.1 and the drift downwards towards the close was ascribed to little more than the expected profit-taking in a market which, at yesterday's peak, had risen by nearly 6 per cent since the eve of last week's cut in UK interest rates to 5.5 per cent.

There was no lack of encouragement from the market strategists. Mr Nicholas Knight, the bull from Nomura, heads predicted a rally of 200 – 400 Footsie points "in the next eight weeks," which would bring it to his celebrated year-end forecast of 3,600.

At Goldman Sachs International, believed by some dealers to have turned bearish ahead of the Budget, yesterday raised its Footsie forecast to 3,600 "in a year (3,250-3,300 at year-end). Salomon International, another heavy presence in derivatives markets, raised its year-end target to 3,350, with its June 1994 target at 3,500.

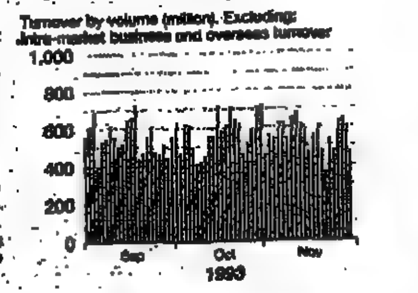
Two weak spots in the market were GEC, after a disappointing interim report, and Ladbroke which confirmed intentions to take advantage of foreign dividend rules.

Among the strongest sectors yesterday were building and construction issues, cheered by Budget decisions to proceed with major projects, and banks, which benefit both from interest rate optimism and active stock markets. Brewery stocks advanced on the absence of Budget changes in beer duties.

FT-A All-Share Index

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key indicators

Indices and ratios

FT SE 100	3233.2	+66.3	FT Ordinary index	2457.2	+38.7
FT-SE Mid 250	3565.6	+80.7	FT-A 500 p/e	20.43	(20.14)
FT-SE-A 350	1608.7	+33.7	FT-SE 100 Fut Dec	3259.0	+74.0
FT-A All-Share	1589.91	+33.46	10 yr Gilt yield	6.50	(6.62)
FT-A All-Share yield	3.59	(3.66)	Yield ratio:	1.94	(1.94)

Best performing sectors		Worst performing sectors	
1 Water	+3.9	1 Electronics	-2.0
2 Banks	+3.3	2 Food Retailing	-1.2
3 Insurance (Life)	+3.2	3 Insurance Brokers	-0.8
4 Electricity	+3.1	4 Hotels & Leisure	-0.6
5 Brewers & Distillers	+3.0	5 Engineering-Aerospace	-0.2

Ladbroke out of favour

As the market surged ahead, Ladbroke provided one of the few splashes of red on dealing screens as a variety of bearish stories struck the leisure stock. First came news that Mr Michael Hirst, a main board director, had unloaded 125,000 shares – virtually half his stake – in the market four days ago at 161p a share.

The timing of the announcement, which came just minutes before the market closed on Tuesday, meant the stock felt the full brunt of investor concern as the market opened yesterday. It drifted lower throughout the morning session, amid reports that one of the stock's most bullish brokers had turned negative. There was also talk of a boardroom rift over the share sale.

However, it was not until late afternoon that the shares went into full retreat as rumours swept the market – later confirmed in an after-hours' statement from the company – of the group's decision to take advantage of foreign income dividend rules, a move which will hit pension fund shareholders. There were grumblings from some brokers that the news of the announcement had been leaked into the market selectively.

The stock finished 20½ weaker at 151p after very large turnover of 21m shares.

GEC upset

The market's fears earlier this week that GEC's interim results would be accompanied by a warning of continuing difficult trading proved correct as the company warned that it's full year earnings were unlikely to be substantially higher than last year's.

It was that warning, rather than the actual figures – which showed half-time profits at the top end of market expectations – that produced the latest severe bout of underperformance by GEC shares. They dropped to 317p in the aftermath of the results and accompanying statement before embarking on a rally which left them a net 13 off at 320½p. Turnover in the stock reached a hefty 44m, easily the highest since January 1989, shortly after GEC launched its ultimately successful bid for Plessey. GEC shares have come under sustained downside pressure since early October, retreating from a peak 366p.

"It seems likely that downgrades in the order of 3 to 5 per cent will be the norm," said one specialist. Previously analysts had been looking for full year profits of between £910m to £945m. A figure of £900m was being pencilled in late yesterday.

Drinks cheer

The drinks sector was buoyant following the chancellor's decision not to increase excise duties. Bass, which yesterday reported respectable but dull figures according to analysts, was one of the star performers surging 34 to 537p in its biggest ever turnover of 16m. Other domestic-based drinks stocks also bounded forward, Scottish and Newcastle gaining 25 to 512p. Whitbread 21 to 557p, Wolverhampton and Dudley 31 to 531p, Allied Lyons 25 to 620p, as did Greenalls to 408p.

Poor results from Argyll Group confirmed the market's worst fears over the impact of the price war currently under way among the country's food retailers. As well as announcing figures at the bottom end of forecasts, the company was telling analysts that the continuing price pressures might affect second-half profits. The shares slumped 23 to 256p in record turnover of 23m.

Bank shares were among the market's best performing stocks and interest in the sector was additionally boosted by news that SG Warburg Securities had launched a call warrant into a basket of four UK bank stocks, underlining the broking firm's bearish stance on the stocks.

Each basket is the equivalent of seven Barclays, seven National Westminster, six TSB and three Royal Bank of Scotland shares and was priced at £104.57 as at 4.30pm on November 30. Warburg said the warrant would enable holders of the underlying stocks who want to lock in profits but also want to maintain exposure to the sector could do so by selling the stock and purchasing the warrant.

National Westminster was the strongest performer in the sector, climbing 27 to 586p, closely followed by Barclays, up 25 at 609p. HSBC jumped 20 to 762p, Lloyds 11 to 604p, Abbey National 18 to 424p and TSB 5 to 219p. Merchant banks showed SG Warburg 40 higher at 897p, Kleinwort Benson 16 to 539p.

Composite insurances delivered strong gains across the board confirming the view prevalent in the market after the Budget that the imposition of a 3 per cent tax on general insurance would have only a minimal impact of the companies business and that their stock prices would anyway be big beneficiaries of the market's surge.

Commercial Union, where dealers cited large-scale switching out of the convertible bond, jumped 19½ to 626p. Sun Alliance rose 11½ to 381p.

Leading property shares bounded forward, as hopes of sustained low interest rates underpinned the rises. Dealers said the immediate response was to the hardening gilt yields which will impact in turn on the yields in the direct property market. Even after yesterday's big rises, one leading agency broker said: "All the bull arguments for are still valid. The sector still has plenty of value." MEPC, which reports results today, jumped 17 to 550p, Land Securities 20 to 763p and Hammerson 17 to 394p, led the risers.

Rothmans International shed 2 to 411p after a disappointing trading statement and profits of £233.4m which were in line with forecasts but affected by hit by £16.6m of restructuring.

Publishers recorded sharp gains on relief that the chancellor did not impose VAT on books, newspapers and magazines in the Budget. United Newspapers soared 34 to 583p, Emap jumped 38 to 401p, The Telegraph was up 19 to 404p and Reed International gained 32 to 797p.

Airline and foreign holiday companies shrugged off worries over the new airport levy. BAA gained 22 to 951p, British Airways 8 to 428p, Airtours 22 to 457p and Owners Abroad 4 to 79p. Euro Disney was helped by a report in the French press that US parent Walt Disney may be prepared to put up $700m in loans and fresh capital if banks follow suit. The shares jumped 45 to 413p.

The strong market rescued an oil sector still beset by worries about crude oil prices. Shell was run up 14 to 694p and BP edged up 4 to 338½p.

MARKET REPORTERS:
Christopher Price,
Peter John,
Steve Thompson.

■ Other statistics, Page 22

■ NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (224)

BRITISH FUNDS (55) AMERICANS (1) Verity, BANKS (9) Bk. Scotland, Barclays, Lloyds, Ottomans, Ryl. Bk. of Scotland, BREWERS (9) Clark Allen, Scott. & Newcastle, Vaux, BLDG MATLS (18) BUSINESS SERVS (4) BNB, Christie, Chubb Security, Serco, CHEMS (3) Croda Intl., ICI, CONGLOMERATES (2) Hanson, Do Wts., Do 9½pc Cv., CONTG & CONSTRCN (4) Abbey, Berkeley, Crest Nicholson, Westbury, ELECTRICALS (3) BICC Cap. 10½pc Cv. '20, Dewhurst A, Oxford Instrs., ELECTRICITY (1) Northern, ELECTRONICS (9) Acal, Control Techs., Elect'comps., Farnell, Molynx, Peek, ENG AERO (4) Rolls Royce, Smith Inds., ENG GEN (4) Dobson Park, Siebe, Sterling Inds., TI, FOOD MANUF (3) Assoc. Brit. Foods, Dawe, HEALTH & HSEHOLD (4) Amersham Intl., Court Cavendish, Quality Care Homes, HOTELS & LEIS (9) Airtours 6½pc PL, Barr & WAT A, Compass, Forte, Jurys, Stanley Leis., INSCE BROKERS (1) Willis Corroon, INSCE COMPOSITE (1) Trade Indemnity, INSCE LIFE (3) Legal & General, Lon. & Manchester, Prudential, INV TRUSTS (104) MEDIA (18) Addscene, Carlton Comms., Central ITV, Daily Mail A, EMAP, Elsevier, Euromoney Publs., HTV, Metal Bulletin, Metro Radio, Pearson, Radio Clyde, Quarto 8½pc PL, Reed Intl., Reuters, Sleepy Kids, Southnews, Trinity Intl., MERCHANT BANKS (3) Close Bros., Kleinwort Benson, MTL & MTL FORMING (1) Caradon 9½pc Cv. '00-01, MISC (11) BAT Inds., Bodo, Birkby, Hornby, Kershaw (A), McLeod Russell, Nobo, Plantsbrook, Portmeirion Potts., Spandex, Tarns (A, MOTORS (3) ABI, Hanlys, Lex, OIL & GAS (2) Calor, Command Petm., OTHER FINCL (4) Cattles, Ferpetual, Smith New Court, Do Cv. PL, OTHER INDLS (1) CMI, PACKG, PAPER & PRINTG (7) Arjo Wiggins Appleton, De La Rue, Ferguson, Gibbon Lyons, Kymmene, NMC 7½pc PL, Wood (SW), PROP (20) STORES (11) Argos, Cantors, Carpetright, Courts, GUS, Kingfisher, Keenans, Lloyds Chems., Marks & Spencer, Sears, Smith (WH), TELE NETWORKS (3) BT, Securicor NV, TEXTS (3) Alexandra Workwear, Atkins, Yorklyde, TRANSPORT (6) BAA, [illegible]

NEW LOWS (10)

[illegible]

Data based on those Companies quoted on the London Share Service.

EQUITY FUTURES AND OPTIONS TRADING

London's derivatives markets saw record turnover and huge premiums yesterday. The buying played a significant role in driving the FT-SE 100 Index to a new high after the Budget, *writes Peter John.*

Volume in Footsie futures for December topped 30,000 contracts, which represent an underlying value of some £2.5bn and the highest turnover ever. Also, furious activity in traded options drove the daily turnover above 90,000 contracts, nearly two-thirds of which reflected activity in the Footsie.

One dealer said: "Everyone was involved, UK institutions, US investment houses, marketmakers taking profits and setting up positions. The Budget has renewed interest in the London market."

On most arithmetic models the December contract should be priced at or just below the underlying cash market. But yesterday when it opened at 3,213 it was at a premium of about 15 points and it continued to push ahead throughout the day.

At best it hit 3,274, and while it eased back to 3,259 by the official close, it pressed ahead again in after-hours' trading to reach 3,265 and show a premium of 32 points to cash. The premium reflected the dearth of stock in the underlying market and most dealers expected the Footsie to rise by a further 20 points when it opens today.

One important element behind the rise was closing of bear positions by pension funds, who had been particularly worried about Budget changes to advance corporation tax and bought Footsie put options as protection. Implied volatility on at-the-money puts fell from 18 per cent to 14 per cent yesterday.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3213.0	3259.0	+74.0	3274.0	3200.0	33631	51780
Mar	3222.0	3278.5	+76.0	3290.0	3220.0	4705	17452
Jun	3281.0	3288.5	+76.0	3281.0	3281.0	1	980

Contract traded on APT. Open interest figures are for previous day.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3237) £10 per full index point

	3000		3050		3100		3150		3200		3250		3300		3350	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
Dec	[illegible]															
Jan	[illegible]															
Feb	[illegible]															
Mar	[illegible]															
Jun†	[illegible]															

Calls 19,974 Puts 18,682

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2925		2975		3025		3075		3125		3175		3225		3275	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
Dec	[illegible]															
Jan	[illegible]															
Feb	[illegible]															
Mar	[illegible]															
Jun†	[illegible]															

Calls 8,653 Puts 10,634 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

TRADING VOLUME

■ Major Stocks yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	14,000	62½	-2
Abbey National†	6,100	424	+18
Albert Fisher	1,900	83	+3
Allied-Lyons†	4,900	620	+25
Anglian Water†	1,400	651	+21
Argos	1,400	366	+15
Argyll Group†	23,000	256	-23
Arjo Wiggins†	4,600	267	+8
[illegible]			

FT - SE Actuaries Share Indices — The UK Series

	Dec 1	Day's chge%	Nov 30	Nov 29	Nov 26	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3233.2	+2.1	3166.9	3135.6	3111.4	2784.1	3.66	5.44	22.76	90.08	1180.84
FT-SE Mid 250	3565.6	+2.3	3484.9	3466.0	3454.9	2850.8	3.42	5.56	21.95	82.44	1291.24
FT-SE Mid 250 ex Inv Trusts	3564.9	+2.3	3483.8	3466.5	3454.2	2855.5	3.53	5.64	20.88	85.02	1288.75
FT-SE-A 350	1608.7	+2.1	1576.0	1561.1	1550.5	1335.4	3.62	5.47	22.57	44.12	1203.69
FT-SE SmallCap	1763.16	+1.2	1742.60	1737.57	1734.99		3.13	3.87	34.18	41.54	1335.12
FT-SE SmallCap ex Inv Trusts	1734.73	+1.0	1717.40	1713.82	1711.14		3.38	4.46	31.40	43.72	1315.64
FT-A ALL-SHARE	1589.91	+2.1	1556.45	1543.27	1533.30	1309.32	3.59	5.38	23.04	43.22	1210.02

■ FT-Actuaries All-Share

	Dec 1	Day's chge%	Nov 30	Nov 29	Nov 26	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
1 CAPITAL GOODS(215)	[illegible]										
2 Building Materials(29)	[illegible]										
3 Contracting, Construction(29)	[illegible]										
4 Electricals(16)	[illegible]										
5 Electronics(36)	[illegible]										
6 Engineering-Aerospace(7)	[illegible]										
7 Engineering-General(45)	[illegible]										
8 Metals & Metal Forming(9)	[illegible]										
9 Motors(20)	[illegible]										
10 Other Industrials(19)	[illegible]										
21 CONSUMER GROUP(235)	[illegible]										
22 Brewers and Distillers(28)	[illegible]										
25 Food Manufacturing(24)	[illegible]										
26 Food Retailing(17)	[illegible]										
27 Health & Household(31)	[illegible]										
29 Hotels and Leisure(25)	[illegible]										
30 Media(34)	[illegible]										
31 Packaging and Paper(28)	[illegible]										
34 Stores(38)	[illegible]										
35 Textiles(20)	[illegible]										
40 OTHER GROUPS(143)	[illegible]										
41 Business Services(27)	[illegible]										
42 Chemicals(24)	[illegible]										
43 Conglomerates(11)	[illegible]										
44 Transport(16)	[illegible]										
45 Electricity(17)	[illegible]										
46 Telephone Networks(4)	[illegible]										
47 Water(13)	[illegible]										
48 Miscellaneous(31)	[illegible]										
49 INDUSTRIAL GROUP(593)	[illegible]										
51 Oil & Gas(17)	[illegible]										
59 "500" SHARE INDEX(610)	[illegible]										
61 FINANCIAL GROUP(91)	[illegible]										
62 Banks(9)	[illegible]										
65 Insurance (Life)(6)	[illegible]										
66 Insurance (Composite)(7)	[illegible]										
67 Insurance Brokers(10)	[illegible]										
68 Merchant Banks(6)	[illegible]										
69 Property(36)	[illegible]										
70 Other Financial(23)	[illegible]										
71 Investment Trusts(110)	[illegible]										
99 FT-A ALL-SHARE(810)	1589.91	+2.1	1556.45	1543.27	1533.30	1309.32	3.59	5.38	23.04	43.22	1210.02

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3197.0	3194.9	3204.5	3220.7	3226.7	3240.1	3228.6	3233.1	3237.0	3250.1	3193.3
FT-SE Mid 250	3520.0	3523.2	3523.2	3547.3	3552.6	3561.0	3560.4	3561.2	3564.2	3567.0	3524.8
FT-SE-A 350	1590.7	1590.1	1594.4	1604.4	1604.9	1610.9	1609.5	1609.0	1610.3	1614.9	1588.1

Time of FT-SE 100 High 1:12pm Low 8.36am

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Construction	2025.0	2023.9	2025.5	2048.1	2052.2	2050.0	2058.9	2058.3	2055.8	2058.8	1994.1	+61.7
Health & H'hold	1066.6	1064.2	1066.6	1097.7	1104.7	1108.3	1105.6	1104.5	1105.6	1104.5	1077.6	+26.9
Water	1540.2	1541.2	1553.4	1558.8	1560.0	1574.5	1573.5	1576.8	1590.4	1581.1	1527.6	+53.3
Banks	2065.6	2079.1	2081.7	2098.6	2094.0	2099.7	2101.1	2102.0	2111.0	2114.1	2046.2	+67.9

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT at the same address. The increase in the size of the FT-Actuaries All-Share Index from January 4 1993 means that the FT 500 now contains more stocks. It has been renamed the FT "500". The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1993. © The Financial Times Limited 1993. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are calculated by The WM Company. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls			Puts		
[illegible]							

Dec 1 Total contracts [illegible] Calls [illegible] Puts [illegible] * Underlying security price. Premiums shown are based on closing offer prices.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	68	2	6
Other Fixed Interest	3	0	16
Commercial, Industrial	649	103	690
Financial & Property	106	9	50
Investment Trusts	59	6	69
Oil & Gas	378	6	147
Mines	26	14	38
Others	47	27	66
	80	26	44
Totals	1,416	189	1,116

Data based on those companies listed on the London Share Service.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1993 High	1993 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											

† Introduction. § Placing price. F.P. Fully-paid security. For an explanation of other notes, please refer to the Guide to the London Share Service.

FINANCIAL TIMES EQUITY INDICES

	Dec 1	Nov 30	Nov 29	Nov 26	Nov 25	Yr ago	*High	*Low
Ordinary share	2457.2	2418.5	2365.6	2389.3	2355.2	2097.8	2457.2	2124.7
Ord. div. yield	3.78	3.84	3.95	3.93	3.96	4.42	4.62	3.76
Earn. yld. % full	4.38	4.42	4.47	4.52	4.56	6.07	6.28	4.38
P/E ratio net	28.59	28.36	28.11	27.75	27.54	21.06	28.59	19.40
P/E ratio nil	26.56	26.32	26.07	25.73	25.54	19.40	26.56	18.14
Gold Mines	227.0	226.1	239.9	235.0	235.6	70.1	249.8	60.0

*For 1993. Ordinary share index since compilation: high 2418.5 30/11/93; low 49.4 26/6/40. Gold Mines index since compilation: high 734.7 15/2/83 - low 43.5 26/10/71. Ordinary share base date 1/7/35. Gold Mines 12/9/55.

■ Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2443.2	2433.8	2439.9	2452.0	2453.7	2461.7	2460.1	2469.5	2464.2	2468.3	2432.1

	Dec 1	Nov 30	Nov 29	Nov 26	Nov 25	Yr ago
SEAQ bargains	46,745	26,165	31,797	34,313	27,842	26,749
Equity turnover (£m)†	-	1294.4	1526.1	1590.1	1264.9	
Equity bargains†	-	31,245	35,866	39,518	32,731	34,072
Shares traded (mil)†	-	475.0	905.1	851.2	623.0	578.0

† Excluding intra-market business and overseas turnover.

TRADITIONAL OPTIONS

First Dealings	Nov. 22	Last Declarations	Feb. 24
Last Dealings	Dec. 3	For settlement	March 7

3-month call rate indications are shown in Saturday editions.
Calls: Alvis, Babcock, Bulmer (H.P.), Dawson Intl., Glenchewton, Kalamazoo, Microvitec, Premier Cons., Pelen, Racal Elect., Rhino Grp., Sleepy Kids, Wellman, Put & Call: Coolt (D.C.)

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or –	1993 high	1993 low	Mkt Cap £m	Yld Gr's
Abbott Labs		19⅝	—	20⅛	15⅝	16,424	2.3
Allegheny & W	♥	452p	+8	732p	389p	358.3	4.3
Amdahl		370p	—	670p	294p	415.6	0.9
Amer Cyanamid		35¼	—	39	31⅛	3,107	3.3
Amer Express		21⅛	–⅛	23⅞	14⅞	10,180	3.2
Amer T & T		36½xd	–⅛	40⅛	33⅛	40,439	2.4
Ameritech		51⅛	+⅛	58⅛	46	22,858	4.8
Anheuser-Busch		33½xd	–⅛	41⅛	33⅛	9,270	2.9
BankAmerica		29⅞xd	+⅛	36⅛	27⅛	10,643	3.1
Bankers NY		51⅛	+⅛	54⅛	42⅛	4,248	4.0
Bell Atlantic		40⅝	+½	44⅛	32⅛	17,860	4.4
BellSouth		38⅝	–½	42⅝	32⅛	19,080	4.8
Bethlehem Steel	♥	11½	–⅛	13⅛	8½	1,048	—
Bowater		1352p	—	1682p	1169p	489.9	3.0
CPC		31⅛	–⅛	36⅝	28	4,823	2.7
California Engy		1305p	+114	1475p	1095p	237.6	—
Chase Manhattan		22⅛	+⅛	24⅛	17⅞	3,621	3.8
Chrysler		35⅛	–⅛	39	21⅛	16,377	1.1
Citicorp		24⅛	+⅛	28	13⅛	8,786	—
Colgate-Palm		39⅛	+⅛	46⅞	32	6,346	2.4
Cont'l Bank		1688p	+7	1877p	1278p	1,712	2.4
Dana		38½xd	+⅛	39⅛	29⅛	1,670	2.9
Data General		658p	—	951p	527p	180.7	–
Decorat Inds	♥	100p	—	148p	88p	–	–
Dun & Brad		42⅛	–1⅛	46⅞	37⅛	7,533	3.9
Eaton		33⅝	—	37⅛	25⅛	2,339	2.4
Echlin		22⅛	–⅛	22⅛	15⅛	1,285	2.1
FPL		24⅛	+⅛	27⅝	23⅛	4,580	6.6
Ford Motor		41⅛	+⅛	43⅛	28⅛	20,201	2.8
Gen Elect		66⅛	+⅛	67⅛	53⅛	56,473	2.8
General Host	♥	407p	—	728p	406p	–	4.6
Gillette		42⅛xd	+⅛	43⅛	31⅛	9,212	1.3
Hasbro		20⅞	—	26⅝	20⅝	1,819	0.8
Honeywell		21⅞xd	+⅛	26½	20⅛	4,548	2.9
Houston Inds		30⅛	—	33⅛	29⅛	3,934	6.6
Ingersoll-Rand		26½xd	+⅛	25⅞	18⅛	2,677	1.8
Lockheed		47	—	47⅝	35⅛	2,914	3.0
Lowe's		3475p	–10	3546p	1573p	2,935	0.8
Maxy Technology		380p	+79	432p	127p	–	–
Merrill Lynch		30⅛xd	–⅛	33⅛	16½	9,832	1.8
Morgan (JP)		47⅛xd	—	52⅛	38⅛	8,113	3.4
Morris (Philip)		37⅝	–⅛	52⅝	28	32,872	4.7
NYNEX		25⅞	–⅛	32⅛	28⅛	11,917	5.4
PaB		12⅛	+⅛	15	10⅞	1,494	1.7
Pennzoil		35½xd	+⅛	47⅛	31⅛	1,769	5.2
Quaker Oats		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.9

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICALS - Cont.

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

INVESTMENT COMPANIES

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

□ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
* Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
Figures or report awaited
Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ Free annual/interim report available, see details below.
USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue.
Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
◆ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on BMR "Headline Earnings"
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring 081 770 0770 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT9447. (If calling from outside UK, dial +44 81 770 0770 or fax +44 81 770 3822) Reports will be sent the next working day, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time at which the unit trust's valuation point occurs unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♠) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Sun Life Trust Mngmt Ltd (1200)H

Swiss Life Unit Tst Man Co Ltd (1200)F

TSB Unit Trusts (1200)F

PDFM Unit Managers Ltd

Rothschild Asset Management

J. Rothschild Fund Managers Ltd

Stewart Ivory & Co Ltd

Thornton Unit Managers Ltd

INSURANCES

OTHER UK UNIT TRUSTS

Barclays Life Assur. Co Ltd - Contd.

Black Horse Life Assurance

Combined Life Assurance Co

Commercial Union Group

General Portfolio Life Insce Plc - Contd.

Legal & General

Manchester Unity Assurance - Contd.

Pearl Assurance - Contd.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

J Rothschild Assurance PLC - Contd.

Royal Heritage Life Assurance Ltd

Scottish Provident Group - Contd.

Sun Life Unit Assurance Ltd - Contd.

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

TSB Trust Funds - Contd.

JERSEY (REGULATED)(**)

Barclays Intl Funds

Cater Allen Investment Management (CI)

Citibank (CI) Ltd

Coutts & Co (Jersey) Fund Managers Ltd

EBC Fund Managers (Jersey) Ltd

Fleming Group

Grosvenor Fund

John Govett Management (Jersey) Ltd

Lloyds Bank Trust Co (CI) Ltd

Lombard Odier (Jersey) Ltd

Perpetual UT Mngrs (Jersey) Ltd

Royal Bank of Canada Intl Fd Mgt Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

Schroder Mngt Services (Jersey) Ltd

TSB Trust Funds (CI)

Tyndall International (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

Barclays Inv Funds (Luxembourg)

Kleinwort Benson Japanese Warrant Fund

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse

Liberty ALL-STAR World Portfolio

Midland International Circuit Fund SICAV

Nomura Global Fund

Nomura Worldwide Inv Portfolio Sicav

Sun Life Global Management Ltd

Templeton Global Strategic SICAV

Fleming Group

LUXEMBOURG (REGULATED)(**)

Asian International Umbrella Fund

Alliance Capital

American Phoenix Investment Portfolio

Asian Development Equity Fund

Banque Indosuez Luxembourg

Banque Paribas Luxembourg

CS Fund International

Credit Commercial de France

Lloyds Bank Luxembourg

Morgan Stanley Sicav

Nikko Bank (Luxembourg) S.A.

SWITZERLAND (SIB RECOGNISED)

S.J.A. Bond Investments AG

OTHER OFFSHORE FUNDS

ATSP Management Ltd

Abtrust Fund Mngrs (Guernsey) Ltd

Adig Investment

Alliance Capital

BEA Associates

Barclays Eurofutures Fund Ltd

Baring International Group

Bermuda Capital Company Ltd

Buckman Fund Ltd

Butterfield Management Co Ltd

Capital International

Chameleon Funds Limited

The China Fund

China Investment Company

Citizens Investment Trust Mgt Co Ltd

Columbus Asset Management Ltd

Connaught Investments Ltd (Hong Kong)

Craig Drill Capital Ltd

Credit Lyonnais Rouse (Bermuda) Ltd

Cregem International Bank

Daiwa International Capital Management

EBS Overseas Fund Ltd

Fidelity Investments

Formosa Fund

GT Management Plc

Global Asset Management

Goldman Sachs

Hypo Foreign & Colonial

Jardine Fleming Unit Trusts Ltd

Johnson Fry Securities Ltd

Korea International Investment Trust

Lloyds George Management

Malaysia Capital Fund Ltd

Morgan Stanley Japanese Warrant Fund

Pacific Growth Fund

Rothschild Asset Management (CI)

Schroder Japanese Warrant Fund

Templeton Galbraith & Hansberger Ltd

Thornton Investment Management Ltd

Wardley Investment Services Ltd

Yamaichi Capital Mngmt (Guernsey) Ltd

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

£ falters after Budget

After its initially-positive reaction to the Chancellor's tough Budget on Tuesday, the pound fell back yesterday to close a touch lower on the day – even though UK shares enjoyed one of the biggest rallies of the year and gilts continued to rise on the back of the Budget, *writes Rachel Johnson.*

Mr Kenneth Clarke's outline of a sharply-diminishing public sector borrowing requirement over the next few years – which should bring a big decline in gilts supply in its train – was among the best pieces of news that gilts had had all year.

But other factors were clearly contributing to take the post-Budget shine off the pound. Topmost among them was investor fears of further cuts in UK interest rates, combined with the view that sterling's level was about right for the moment.

Mr Roger Bootle, UK economist at Midland Montagu, the securities house, said that it was a little disappointing that demand for sterling had evaporated so fast after the Budget, but the market clearly had its reasons.

"The pound's effective range is DM2.40-DM2.60. As soon as sterling starts trading comfortably above DM2.54 there is too much downside," he said.

Above that level the authorities start becoming concerned about UK competitiveness, he said.

On the Bank of England's trade-weighted index against a basket of currencies, sterling opened at 81.7 and closed a touch weaker at 81.6, as dealers sold off after the small rise in the currency. Against the dollar, the pound closed at $1.4805 after a previous $1.4845, and against the D-Mark it closed lower at DM2.5435, after a previous DM2.5475.

The Chancellor's fiscal tightening and unexpected cut in government spending underpinned the currency late on Tuesday and provoked a 66-point rise in the FT-SE 100 share index early yesterday afternoon.

On monetary conditions, Midland economists could not understand why the money markets were showing such caution about the future path of interest rates. For according to their reading of the fiscal projections, the Chancellor's PSBR cuts were predicated on revenues from strong economic growth. With the recovery still as yet not firmly established, there was no question that lower interest rates would be needed as a further stimulus for growth.

Before last week's cut in the base rate to 5.5 per cent, the markets thought the interest rate floor would be about 5 per cent. But some economists have been arguing that economic conditions dictate a 4 per cent floor for some time.

● The sterling contract for June was just three basis points higher at 94.95, while the December short sterling contract ended fractionally lower at around 94.62. Gains in short sterling futures were concentrated in the contracts expiring from late 1994 onwards – the December 1994 contract was up 10 basis points at 94.86 at one point. The markets took their lead from Mr Clarke, who suggested on BBC radio that he would not cut again "unless and until" he was satisfied the right conditions existed. The three-month interbank rate moved a tiny bit lower to around 5¾, after a previous 5⅞, reflecting the view that the Chancellor would level the rate to 5 per cent over the next few months.

● The Bank of England predicted a shortage of £1.15bn (revised from an early £900m) during the day, which it relieved with total help of £831m. The Bank bought £141m of band one bank bills at the established rate of 5⅜ per cent.

● The dollar was guided by a revision in the US gross domestic product figures to 2.7 per cent after a previous 2.8 per cent in the third quarter. Economists had expected the revision to produce a number closer to 3 per cent, but rationalised the figure by recalling the heavy disruption caused by flooding in the Midwest during the three months. Growth for the final quarter is expected to near 4 per cent.

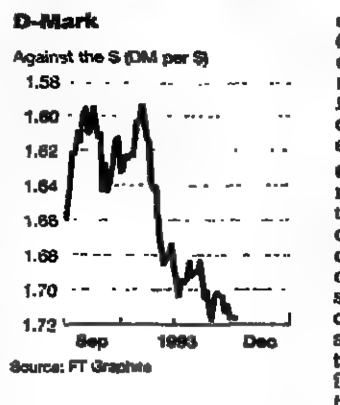
Meanwhile, the November survey of the National Association of Purchasing Management in Detroit reported a drop of 3.1 points to 60.0. But economists said it reflected strength in production, new orders and employment.

● There was bad news on the world trade talks, which are due to be finished in exactly a fortnight's time. Mr Edouard Balladur, the French prime minister, said that the European Union must have an outline accord on the Uruguay Round of the GATT trade talks well before December 15; and said there had been no progress on four problem areas.

● The D-Mark's weaker tone – following on from remarks made by Mr Hans Tietmeyer, the new Bundesbank president, which helped to depress the currency on Tuesday – continued yesterday. The chances of an early easing in the Lombard or discount rates disappeared following the announcement that the Bundesbank would hold no news conference after its regular fortnightly council meeting today. This heightened expectation that the Bundesbank would take advantage of slower growth in broad money and lower inflation to ease on December 16. The central bank's last rate cut, on October 22, however, took the markets by surprise. During the day, the Bundesbank withdrew DM15.1bn in this week's fixed-rate, 6.25 per cent repo. This left call money firm not far below the 6¾ per cent Lombard rate.

D-Mark

Against the $ (DM per $)



Source: FT Graphite

■ **Pound in New York**

Dec 1	—Latest—	—Prev. close—
£ spot	1.4790	1.4885
1 mth	1.4766	1.4840
3 mth	1.4723	1.4787
1 yr	1.4597	1.4663

POUND SPOT FORWARD AGAINST THE POUND

Dec 1		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 1		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Morgan G'ty chges %
[illegible]													
Philippines	(Peso)	28.05	-	000 - 100	28.15	28.00	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.751	+0.0005	750 - 751	3.7515	3.7500	3.758	-2.2	3.789	-1.9	3.789	-1.0	-
Singapore	(S$)	1.599	-0.0005	599 - 599	1.6010	1.5980	1.598	0.8	1.5977	0.3	1.5955	0.2	-
S Africa (Com.)	(R)	3.3695	+0.004	369 - 370	3.3715	3.3675	3.387	-6.2	3.415	-6.4	3.5335	-4.9	-
S Africa (Fin.)	(R)	4.435	-0.02	430 - 440	4.4600	4.4300	4.467	-8.7	4.529	-8.5	-	-	-
South Korea	(Won)	807.95	-0.15	900 - 000	808.60	807.80	810.95	-4.5	814.45	-3.2	832.95	-3.1	-
Taiwan	(T$)	26.9	-0.05	850 - 950	26.95	26.85	26.965	-2.9	27.105	-3.0	-	-	-
Thailand	(Bt)	25.45	-	400 - 500	25.50	25.40	25.465	-0.7	25.495	-0.7	25.76	-1.2	-

†SDR rate for Nov 30. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Morgan Guaranty Changes shown for Nov 30. Base average 1980/82=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 1		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.72	16.34	4.729	1.948	4722	5.306	20.56	483.7	388.3	23.33	4.121	1.860	3.674	2.753	299.0	2.461
Denmark	(DKr)	53.43	10	8.730	2.527	1.041	2523	2.835	10.98	258.4	207.5	12.47	2.202	0.994	1.963	1.471	159.7	1.313
France	(FFr)	61.20	11.46	10	2.895	1.192	2890	3.248	12.58	296.1	237.6	14.28	2.522	1.139	2.249	1.685	183.0	1.506
Germany	(DM)	21.14	3.959	3.455	1	0.412	998.4	1.122	4.347	102.3	82.10	4.933	0.871	0.393	0.777	0.582	63.22	0.520
Ireland	(I£)	51.34	9.608	8.388	2.428	1	2424	2.724	10.55	248.3	199.3	11.98	2.116	0.955	1.886	1.414	153.5	1.264
Italy	(L)	2.118	0.396	0.345	0.100	0.041	100.	0.112	0.435	10.24	8.223	0.494	0.087	0.039	0.078	0.058	6.332	0.052
Netherlands	(Fl)	18.85	3.527	3.079	0.891	0.367	889.9	1	3.874	91.16	73.16	4.397	0.777	0.351	0.692	0.519	56.35	0.464
Norway	(NKr)	48.64	9.104	7.948	2.300	0.948	2297	2.581	10	235.3	188.9	11.35	2.005	0.905	1.787	1.339	145.4	1.197
Portugal	(Es)	20.67	3.869	3.378	0.978	0.403	975.2	1.097	4.250	100.	80.27	4.823	0.852	0.385	0.760	0.569	61.81	0.509
Spain	(Pta)	25.75	4.820	4.208	1.218	0.502	1215	1.367	5.295	124.6	100.	6.009	1.061	0.479	0.946	0.709	77.00	0.634
Sweden	(SKr)	42.86	8.022	7.003	2.027	0.835	2024	2.274	8.812	207.3	166.4	10	1.766	0.797	1.575	1.180	128.1	1.055
Switzerland	(SFr)	24.27	4.542	3.965	1.148	0.473	1146	1.288	4.989	117.4	94.22	5.661	1	0.451	0.892	0.668	72.56	0.597
UK	(£)	53.78	10.06	8.782	2.542	1.047	2538	2.852	11.05	260.0	208.7	12.54	2.215	1	1.975	1.480	160.7	1.323
Canada	(C$)	27.22	5.094	4.447	1.287	0.530	1285	1.444	5.595	131.6	105.7	6.349	1.122	0.506	1	0.749	81.37	0.670
US	($)	36.32	6.797	5.934	1.718	0.707	1715	1.927	7.466	175.7	141.0	8.473	1.497	0.676	1.334	1	108.6	0.894
Japan	(Y)	334.5	62.60	54.65	15.82	6.515	15793	17.75	68.76	1618	1299	78.03	13.78	6.223	12.29	9.210	1000.	8.233
Ecu		40.63	7.604	6.638	1.921	0.791	1918	2.156	8.352	196.5	157.7	9.478	1.674	0.756	1.493	1.119	121.5	1

Yen per 1,000: Danish Kroner, French Franc, Norwegian Kroner and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]							

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]							

EMS EUROPEAN CURRENCY UNIT RATES

Dec 1	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.808628	0.791424	-0.003518	-2.13	4.45	14
Netherlands	2.19672	2.15578	-0.00018	-1.86	4.20	-
Germany	1.94964	1.92218	+0.0008	-1.41	3.73	-
Belgium	40.2123	40.5572	-0.1186	0.86	1.39	-6
France	6.53883	6.63821	-0.00546	1.52	0.73	-13
Portugal	192.854	196.547	-0.088	1.91	0.34	-13
Denmark	7.43679	7.60210	-0.0121	2.22	0.04	-16
Spain	154.250	157.734	+0.269	2.26	0.00	-16
NON ERM MEMBERS						
Greece	264.513	275.894	+0.178	4.30	-1.86	-
Italy	1793.19	1919.04	+6.53	7.02	-4.45	-
UK	0.786749	0.755951	+0.000202	-3.91	6.42	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS			PUTS		
[illegible]						

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr — [illegible]

■ **STERLING FUTURES** (IMM) £62,500 per £ — [illegible]

WORLD INTEREST RATES

MONEY RATES — [illegible]

EURO CURRENCY INTEREST RATES — [illegible]

■ **THREE MONTH EUROMARK FUTURES** (LIFFE) DM1m points of 100% — [illegible]

■ **THREE MONTH EUROLIRA INT. RATE FUTURES** (LIFFE) L1000m points of 100% — [illegible]

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100% — [illegible]

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100% — [illegible]

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100% — [illegible]

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100% — [illegible]

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100% — [illegible]

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100% — [illegible]

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate — [illegible]

■ **THREE MONTH EURODOLLAR** (LIFFE) $1m points of 100% — [illegible]

UK INTEREST RATES

LONDON MONEY RATES — [illegible]

UK clearing bank base lending rate 5½ per cent from November 23, 1993

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100% — [illegible]

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100% — [illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	5.5	Duncan Lawrie	5.5	●Rea Brothers	5.5
Allied Trust Bank	5.5	Exeter Bank Limited	7	• Roxburghe Bank Ltd	6
AIB Bank	5.5	Financial & Gen Bank	7	• (in administration)	
●Henry Ansbacher	5.5	●Robert Fleming & Co	5.5	Royal Bk of Scotland	5.5
Bank of Baroda	5.5	Girobank	5.5	●Smith & Williamson Secs	5.5
Banco Bilbao Vizcaya	5.5	●Guinness Mahon	5.5	Standard Chartered	5.5
Bank of Cyprus	6	Habib Bank AG Zurich	5.5	TSB	5.5
Bank of Ireland	5.5	●Hambros Bank	5.5	●United Bk of Kuwait	5.5
Bank of India	5.5	Heritable & Gen Inv Bk	5.5	Unity Trust Bank Plc	5.5
Bank of Scotland	5.5	●Hill Samuel	5.5	Western Trust	5.5
Barclays Bank	5.5	C. Hoare & Co	5.5	Whiteaway Laidlaw	5.5
Brit Bk of Mid East	5.5	Hongkong & Shanghai	5.5	Wimbledon & Sth West	7
●Brown Shipley	5.5	Julian Hodge Bank	5.5	Yorkshire Bank	5.5
CL Bank Nederland	5.5	●Leopold Joseph & Sons	5.5		
Citibank NA	5.5	Lloyds Bank	5.5		
City Merchants Bank	5.5	Meghraj Bank Ltd	5.5		
Clydesdale Bank	5.5	Midland Bank	5.5		
The Co-operative Bank	5.5	• Mount Banking	6		
Coutts & Co	5.5	• (in administration)			
Credit Lyonnais	5.5	NatWestminster	5.5		
Cyprus Popular Bank	5.5				

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKET FUNDS

Money Market Trust Funds — [illegible]

Money Market Bank Accounts — [illegible]

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 1 / Sch)

BELGIUM/LUXEMBOURG (Dec 1 / Frs.)

DENMARK (Dec 1 / Kr)

FINLAND (Dec 1 / Mka)

FRANCE (Dec 1 / Frs.)

GERMANY (Dec 1 / Dm.)

ITALY (Dec 1 / Lire)

NETHERLANDS (Dec 1 / Fl.)

NORWAY (Dec 1 / Kroner)

SPAIN (Dec 1 / Pts.)

SWEDEN (Dec 1 / Kronor)

SWITZERLAND (Dec 1 / Fr.)

PACIFIC

JAPAN (Dec 1 / Yen)

HONG KONG (Dec 1 / H.K.$)

MALAYSIA (Dec 1 / MYR)

SINGAPORE (Dec 1 / S$)

AUSTRALIA (Dec 1 / Aust$)

NORTH AMERICA

CANADA

TORONTO (Dec 1 / Can $)
4 pm close

MONTREAL (Dec 1 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (Dec 1 / Rand)

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. High/Lows are based on data from Jan 1 1993. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday December 1 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nishimatsu Con	7.0m	1,110	+70	NEC Corp	3.8m	852	+78
Nippon Steel	5.2m	314	+13	NKK Corp	3.7m	230	+9
Tsumura & Co	4.9m	1,420	+180	S'tomo Metal	3.5m	256	+3
Hitachi	4.0m	799	+31	Kobe Steel	3.3m	256	+2
Fujitsu	3.8m	772	+50	M'bishi Heavy	2.9m	630	+31

INDICES

	Dec 1	Nov 30	Nov 29	1993 High		1993 Low	
Argentina							
General (29/12/77)	(c)	17096.8	17118.4	18937.89	22/10	12167.88	8/3
Australia							
All Ordinaries(1/1/80)	2005.4	2008.4	2010.3	2132.40	1/11	1495.00	13/1
All Mining(1/1/80)	973.6	976.4	982.2	994.90	2/8	584.70	13/1
Austria							
Credit Aktien(30/12/84)	410.81	405.90	401.57	424.59	2/11	293.26	14/1
Traded Index(2/1/91)	1084.75	1057.21	1042.5	1094.43	3/11	712.05	15/1
Belgium							
BEL20 (1/1/91)	1401.82	1388.69	1387.29	1408.53	18/11	1123.46	4/1
Brazil							
Bovespa (29/12/83)	(u)	27403.0	27645.0	[illegible]	26/8	714.72	4/1
Canada							
Metals & Minis(1975)	(u)	3275.98	3357.68	3388.94	29/11	2743.31	21/1
Composite(1975)	(u)	4180.21	4170.30	4202.80	12/11	3275.80	21/1
Portfolio(4/1/83)	(u)	1897.45	2007.16	2027.41	11/11	1720.57	21/1
Chile							
IPGA Gen (31/12/80)	(u)	3388.00	3392.97	3382.87	29/11	2813.59	10/5
Denmark							
Copenhagen SE(3/1/83)	345.65	345.61	344.59	355.14	4/11	291.89	4/1
Finland							
HEX General(28/12/90)	1632.2	1516.6	1507.4	1607.70	3/11	843.39	22/1
France							
CAC General(31/12/81)	593.59	592.07	592.24	608.73	25/10	471.24	13/1
CAC 40(31/12/87)	2133.06	2110.69	2119.30	2231.95	22/10	1772.21	29/1
Germany							
FAZ Aktien(31/12/58)	800.92	791.77	785.49	803.81	18/11	598.82	14/1
Commerzbank(1/12/53)	2289.60	2260.40	2245.20	2300.40	3/11	1684.30	14/1
DAX (30/12/87)	2083.67	2057.77	2043.43	2085.59	2/11	1516.39	13/1
Greece							
Athens SE(31/12/80)	877.28	863.61	862.13	944.44	13/8	662.72	5/1
Hong Kong							
Hang Seng(31/7/64)	9254.63	9125.21	9012.77	9738.34	15/11	5437.80	4/1
India							
BSE Sens.(1979)	3392.6	3233.1	3077.5	3382.60	1/12	2109.67	23/4
Indonesia							
Jakarta Comp.(10/8/82)	517.86	518.78	520.46	536.46	22/11	273.31	5/1
Ireland							
ISEQ Overall(4/1/88)	1832.63	1810.70	1788.04	1848.27	3/11	1191.39	11/1
Italy							
Banca Comm. Ital.(1972)	544.85	548.58	543.68	602.85	30/8	445.33	6/1
MIB General (4/1/93)	1200.0	1206.0	1198.0	1360.00	30/8	982.00	11/1
Japan							
Nikkei 225 (16/5/49)	17125.31	16406.54	16078.71	21148.11	13/9	16078.71	29/11
Nikkei 300 (1/10/82)	268.55	254.54	249.64	308.84	10/11	249.64	29/11
Topix (4/1/68)	1443.87	1374.06	1350.48	1698.67	3/9	1250.06	25/1
2nd Section (4/1/68)	1859.15	1803.0	1781.94	2264.87	7/6	1601.22	29/1
Malaysia							
KLSE Comp.(4/4/86)	1015.42	996.45	972.18	1015.42	1/12	614.38	13/1

	Dec 1	Nov 30	Nov 29	1993 High		1993 Low	
Mexico							
IPC (Nov 1978)	(u)	2215.60	2243.13	2281.39	28/11	1504.15	25/2
Netherlands							
CBS Tst Rtn Gen(End 83)	412.9	408.8	404.4	419.30	4/11	325.70	4/1
CBS All Shr (End 83)	267.6	264.4	262.1	272.80	4/11	198.80	13/1
New Zealand							
Cap. 40 (1/7/86)	2049.53	2021.82	2042.55	2269.09	2/11	1485.37	21/1
Norway							
Oslo SE(Ind)(2/1/83)	992.17	983.85	998.35	1036.73	18/11	663.98	27/1
Philippines							
Manila Comp (2/1/85)	2322.76	(c)	2332.23	2462.58	3/11	1230.88	4/1
Portugal							
BTA (1977)	(c)	2514.5	2524.2	2889.60	9/9	1608.20	14/1
Singapore							
SES All-Singapore(2/4/75)	567.19	551.81	547.32	564.35	1/11	384.19	13/1
South Africa							
JSE Gold (28/9/78)	1856.0	1808.0	1854.0	2068.00	30/7	775.00	5/1
JSE Ind. (28/9/78)	4806.0	4851.0	4840.0	4888.00	1/12	4333.00	18/4
South Korea							
Korea Comp Ex(4/1/80)	808.75	811.05	804.54	846.47	20/11	605.93	6/3
Spain							
Madrid SE (30/12/85)	298.54	292.84	295.54	319.26	23/10	215.89	4/1
Sweden							
Affarsvarlden Gen (1/2/37)	1342.00	1303.80	1291.80	1435.10	4/11	879.10	28/1
Switzerland							
Swiss Bk Ind (31/12/58)	1201.34	1190.85	1121.80	1201.34	1/12	904.80	11/1
SBC General (1/4/87)	952.30	941.54	939.80	952.30	1/12	676.70	11/1
Taiwan							
Weighted Pr (30/6/66)	4469.34	4353.00	4364.51	4913.78	7/4	3098.43	9/1
Thailand							
Bangkok SET (30/4/75)	1341.34	1309.95	1285.31	1366.84	12/11	818.84	1/6
Turkey							
Istanbul Comp.(Jan 1986)	18663.7	18977.1	18436.1	18977.10	30/11	3655.53	1/1
WORLD							
MS Capital Int (1/1/70)	563.1*	571.5	567.7	607.10	15/10	488.80	13/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1355.54	1343.12	1344.70	1386.16	22/10	1080.62	13/1
Euro Top-100 (26/6/90)	1158.93	1138.73	1132.41	1170.45	22/10	882.73	13/1
XCapeDragon (31/12/88)	(c)	303.39	300.78	316.71	12/11	188.92	4/1
Barings Emerg.(7/1/92)	144.78	144.48	144.56	144.85	29/11	98.81	4/2

** Sat Nov 27 : Taiwan Weighted Price 4163.39 ; Korea Comp Ex 805.51. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3, NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ¶ Toronto. (c) Closed. (u) Unavailable. ¥ Subject to official recalculation.

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2135.0	2159.0	+56.0	2170.5	2134.0	22,804	58,328
Jan	2145.5	2180.5	+56.0	2182.0	2145.5	194	1,675
Mar	2166.0	2201.5	+55.5	2202.5	2166.0	17	8,886
Jun	-	2199.0	+55.0	-	-	-	1,558

Open interest figures for previous day.

US INDICES

Dow Jones	Nov 30	Nov 29	Nov 26	1993 High	1993 Low	Since compilation High	Since compilation Low
Industrials	3683.95	3677.80	3683.95	3710.77 (16/11)	3241.95 (20/1)	3710.77 (16/11/93)	41.22 (2/7/32)
Home Bonds	108.57	108.76	108.50	109.77 (18/10)	103.49 (11/1)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1757.20	1750.99	1739.89	1759.98 (16/11)	1453.84 (4/1)	1759.98 (16/11/93)	12.32 (8/7/32)
Utilities	225.35	226.40	227.00	256.46 (31/8)	217.14 (8/1)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3713.57 (3721.67) Low 3654.86 (3654.33) (Theoretical¢)
Day's high 3275.89 (3700.43) Low 4180.21 (3678.40) (Actual¢)

Standard and Poors	Nov 30	Nov 29	Nov 26	1993 High	1993 Low	Since compilation High	Since compilation Low
Composite ‡	461.79	461.90	463.06	469.50 (15/10)	429.05 (8/1)	469.50 (15/10/93)	4.40 (1/6/32)
Industrials¶	533.72	533.40	535.87	540.25 (16/11)	486.48 (26/4)	540.25 (16/11/93)	3.62 (21/6/32)
Financial	43.50	43.54	43.27	48.40 (28/8)	39.69 (8/1)	48.40 (28/8/93)	8.64 (1/10/74)
NYSE Comp.	254.79	256.07	255.61	260.48 (15/10)	236.21 (8/1)	260.48 (15/10/93)	4.46 (25/4/42)
Amex Mkt Val	460.03	460.69	463.47	484.28 (2/11)	395.84 (8/1)	484.28 (2/11/93)	29.31 (9/12/72)
NASDAQ Comp	754.39	751.54	754.87	787.42 (15/10)	645.87 (26/4)	787.42 (15/10/93)	54.87 (31/10/72)

■ RATIOS

	Nov 26	Nov 19	Nov 12	Year ago
Dow Jones Ind. Div. Yield	2.71	2.71	2.80	3.14
	Nov 24	Nov 17	Nov 10	Year ago
S & P Ind. Div. yield	2.40	2.38	2.40	2.65
S & P Ind. P/E ratio	27.14	28.88	28.69	27.71

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	462.00	464.05	+2.20	464.25	461.85	60,431	179,601
Mar	-	463.00	-	-	-	8,280	20,855
Jun	-	463.95	-	-	-	134	2,086
Sep	-	465.25	-	-	-	6	440

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
PSEG	22,302,500	32⅜	-⅛
Merck	3,620,000	34¼	+⅛
Wal-Mart	3,531,300	28⅜	-⅛
Am T & T	2,956,900	54¼	-⅛
Gen Motors	2,884,800	52⅝	-1⅛
NationsBk	2,425,300	47⅞	-⅞
YPF Sociedad	2,353,600	24¾	+⅛
Telefonos	2,227,500	55⅜	-⅞
IBM	1,975,800	53⅜	-½
Hanson	1,956,500	21	+⅛

■ TRADING ACTIVITY

Volume (million)	Nov 30	Nov 29	Nov 26
New York SE	286.428	270.052	90.112
Amex	19.631	17.080	7.594
NASDAQ	295.839	243.134	80.287
NYSE			
Issues Traded	2,687	2,687	2,482
Rises	980	1,039	1,119
Falls	1,077	1,074	884
Unchanged	630	574	679
New Highs	44	52	33
New Lows	44	38	19

¢ Correction. * Calculated at 15.00 GMT. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ¢ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

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4 pm close December 1

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	1993 Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
14⅝	11½	AAR	0.48	3.5	68	78	13⅞	13½	13⅝	-⅛
29⅞	13½	A L Labs A	0.18	1.3	31	364	13⅞	d13½	13⅝	-⅛
67¼	54⅝	AMP	1.60	2.7	20	3514	59¼	58½	59⅛	+⅜
72¾	55½	AMR			51	6640	66⅝	66	66	+⅛
3⅞	1¾	ARX			13	197	3⅞	3⅞	3⅞	+⅛
51½	29⅞	ASA x	2.00	4.3	30	605	47	45¾	46⅝	+⅞
30¾	22⅝	AbbtL	0.68	2.3	17	7979	29½	29	29⅛	-⅛
12⅝	8⅛	Abitibi Pr	0.50	4.8	6	30	10½	10½	10½	
15⅝	8¼	Acclaim			20	24	12½	12⅛	12⅛	-⅛
36	25½	ACE Ltd	0.40	1.4	5	741	28⅞	28⅛	28⅝	+¼
12⅛	10¾	ACM Gvt In	1.09	9.2		646	u12⅛	11⅞	11⅞	-⅛
10⅛	9⅛	ACM GvOpp	0.80	8.2		234	9¾	9½	9¾	+⅛
10⅛	8¾	ACM Gvt Sp	0.96	9.6		227	u10⅛	10	10	
11¾	10½	ACM Gvt Se	1.09	9.3		307	u11¾	11⅝	11¾	
11⅞	9⅝	ACM Man	1.08	8.5		897	u12¼	11¾	12¼	+½
9⅞	8⅝	ACM Mgd Dlr	0.72	7.9		174	9⅛	9	9⅛	+⅛
12⅜	7¾	AcmeCle	0.44	4.7	12	65	9½	9⅜	9⅜	-⅛
11⅜	6⅞	Acme Elect			41	109	9¾	8⅞	9⅝	+¾
27⅝	18⅞	Acordia	0.44	1.9	13	62	23⅛	22⅛	23⅛	+⅞
16	10⅜	Acuson			59	678	13½	12⅞	13⅛	-¼
21¾	17¾	Adams Exp	0.52	2.9	0	137	18⅛	18	18⅛	
66¼	45½	Adv Micro	3.00	6.2		254	48⅝	48¾	48¾	+¼
32¾	17⅝	AdvMic	3.00	15.9	7	5805	19¼	18⅞	18⅞	-⅛
8⅛	5½	Advest Grp	0.16	2.3	12	120	6⅞	6⅞	7	+⅛
24¼	14¼	Advo Inc	0.08	0.5	78	401	16⅝	16⅛	16½	+¼
53	41⅛	Aegon ADR	1.23	2.3	11	32	u53⅛	52⅞	53	
66¼	43⅞	AetnaL	2.76	4.5	26	807	61½	60⅞	61	-⅛
34	24¾	Aflac	0.40	1.4	13	3174	28¼	27	28¼	+1¼
22⅛	16⅞	Ahmson	0.88	4.6	8	716	19⅛	18⅞	19⅛	-½
7¾	3⅝	Aileen Inc			6	72	5⅛	5	5	
49½	37½	AirPrC	0.92	2.1	25	1164	44⅞	44¼	44¾	+⅝
33⅛	18⅛	Airborne Frt	0.30	0.9	27	495	u33¼	32¾	33⅛	+⅛
25½	9⅝	Airgas Inc			43	403	21¾	21⅛	22	+1
16⅛	10½	Airlease	1.72	11.0	11	6	15⅝	15¾	15⅝	+⅛
106½	101	AlaP	8.16	7.8		3	104	104	104	
107	102½	Alab 8.28C	7.28	7.1		220	102⅞	102⅞	102⅞	
18	12¼	Alaska Air	0.20	1.2	3	50	16⅝	16⅛	16⅞	+⅛
19¼	14¼	Albany Int	0.36	1.9	45	370	18⅞	17½	18⅞	+¾

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NYSE COMPOSITE PRICES

4 pm close December 1

Continued from previous page

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Price data supplied by Telekurs

[illegible]

AMEX COMPOSITE PRICES

4 pm close December 1

[illegible]

NASDAQ NATIONAL MARKET

4 pm close December 1

[illegible]

AMERICA

Economic data help lift Dow from lows

Wall Street

An overnight rally by the Tokyo stock market, more favourable news on the US economy and a resilient bond market lifted Wall Street out of the doldrums yesterday morning, *writes Frank McGurty in New York.*

By 1pm, the Dow Jones Industrial Average climbed 20.67 to 3,704.62, after flirting with a record high levels during mid-morning. The more broadly based Standard & Poor's 500 was 1.63 higher at 463.42. Secondary markets also were stronger, with the American Stock Exchange composite up 1.46 at 461.49, and the Nasdaq composite 6.98 higher at 761.37. Volume on the NYSE was heavy, with 170m shares traded by 1pm.

The US Treasury market once again set the tone. After a much stronger-than-expected reading of business activity in Chicago on Tuesday, bond traders were braced for more unfavourable news when the US purchasing managers' monthly index was released yesterday.

In the event, the index showed a moderate gain to 55.7 per cent, from 53.8 per cent in October, bringing a measure of relief to traders fearing the worst. The 30-year benchmark government bond was ⅛ higher at 99⅝ by midday, to yield 6.27 per cent.

Sentiment was also buoyed by the commerce department's announcement of a 2.5 per cent increase in October construction spending in October, the largest since March 1992.

Amid the fresh signs of steady economic growth, cyclical issues were among the session's strongest performers. Deere & Co, the farm equipment maker, was up $⅞ to $71⅞, Chrysler added $1⅛ to $53⅞ and Allied Signal was $⅞ higher at $72.

Whirlpool, the diversified manufacturing group, added $2¾ to $61⅝ after Merrill Lynch said a recent price decline left the stock undervalued.

Boeing shed $⅝ to $38⅝ following published reports that the Seattle aerospace concern would further cut production and employment.

Disney was marked up $1⅝ to $41¼ on an upbeat assessment of attendance prospects for the Euro Disney theme park, in which the US company has a 49 per cent stake.

On the Nasdaq, America Online was marked up $2 to $87⅝ after it announced plans to develop interactive television services with Intel and General Instrument. Intel gained $1¼ to $62⅞. On the NYSE, General Instrument was $⅞ lower at $53⅜.

Canada

TORONTO was firm at midday as precious metals held onto earlier gains and energy issues received a technical bounce. The TSE-300 composite index improved 21.64 to 4201.86 in volume of 33.45m shares worth C$355m.

The gold and silver index was up 172.46 or 1.7 per cent at 10,178.31.

Among gold stocks, Franco-Nevada jumped C$4 to C$92⅞.

EUROPE

Bourses gain ahead of Buba meeting

Bourses were encouraged by signals that the Bundesbank might cut rates today, *writes Our Markets Staff.*

FRANKFURT put on a good performance ahead of theBundesbank meeting, although opinion among analysts remained divided as to whether there would be a further round of cuts. Many expect the bank to wait until December 16.

The DAX index closed just below the day's high, up 32.01 or 1.6 per cent at 2,089.78.

Sentiment was also helped, said Mr Eckhard Frahm at Merck Finck, by an improvement in machinery orders which showed an order inflow up some 17 per cent in October.

Daimler was one of the day's main movers, the shares gaining DM19.30 to DM734.00, as investors were encouraged by co-operation talks between the German group and Mitsubishi of Japan.

Thyssen underperformed the market, rising just 40 pfg to DM237.90, after reporting a loss in 1992/1993 of nearly DM1bn and omiting the dividend.

PARIS rose some 2 per cent in good turnover as the market looked forward to a year end rally on renewed optimism for lower interest rates. Even the rise in jobless figures did not affect the rally as the CAC-40 index gained 43.39 to 2,153.98.

Turnover was FFr4bn.

Euro Disney featured with a rise of FFr4.20 to FFr36.45 on hopes that negotiations over financial restructuring were proceeding. However, suggestions in the French media that its US parent was to inject fresh capital were erroneous, the group said.

ZURICH was boosted by better than expected economic data, taking shares 1.3 per cent higher to an all-time record close. The SMI index added 35.8 to 2,774.3.

Domestic led demand picked up on figures showing that November inflation fell to 2.2 per cent, its lowest level since January 1989, and compared with expectations of between 2.5 and 2.7 per cent.

The mood was enhanced by news that seasonally-adjusted GDP rose 0.6 per cent in the third quarter, compared with a 1.1 per cent decline in the same 1992 period.

Banks led the advance with bearer shares in UBS jumping SFr14 to SFr1,327.

Exporters were also strong with recent positive US economic figures being seen as enhancing their prospects. Registered shares in Nestlé, at the top of the actives list, rose SFr13 to SFr1,172.

AMSTERDAM was another market to be supported by positive sentiment throughout the continent with the CBS Tendency index adding 1.3 or almost 1 per cent to 138.2.

The internationals were all firmer with Elsevier in particular gaining from arbitrage to end up Fl 4.90 at Fl 161.20. ING added Fl 1.20 to Fl 85.40 ahead of today's results which are expected to be broadly positive.

STOCKHOLM rose 2.9 per cent, the Affärsvärlden index adding 38.40 to 1,342.00. The market was led higher by a SKr30 or 9.6 per cent rise in Volvo's B shares to SKr444 as opposition grew to the proposed merger with Renault.

MILAN remained inhibited by political uncertainties ahead of this weekend's second round of local elections and the Comit index shed 3.90 to 544.66.

Fiat added L126 to L3,916 in the wake of analysts' recommendations while Olivetti rose L60 to L1,806. In the opposite direction, Generali shed L608 to L36,056 on the back of one large sell order.

Montedison shed L31.5 to L755.80 as shareholders approved its capital increase and the group outlined investment plans.

MADRID rebounded on late institutional buying and the general index rose 5.60 or 1.9 per cent to 296.54 in heavy volume of Pta 35.4bn. The market took its lead from the strength of foreign markets and a cut in the one year treasury bond yield at the day's tender.

Banks, hard hit in recent days, led the advance. Banesto rose Pta110 or 5.3 per cent to Pta2,200 and Santander added Pta280 or 4.6 per cent to Pta6,390. Sevillana led electricals with a Pta40 or 6.8 per cent rise to Pta631.

ATHENS continued higher, still pinning hopes on the announcement today of tax policies favourable for investors. The general index ended added 14.25 or 1.7 per cent to 877.26 in turnover of Dr5.5bn.

Written and edited by John Pitt and Michael Morgan.

FT-SE Actuaries Share Indices

Dec. 1				THE EUROPEAN SERIES				
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1353.91	1357.45	1360.92	1361.90	1362.62	1364.24	1365.96	1365.54
FT-SE Eurotrack 200	1438.49	1441.03	1445.30	1445.34	1449.06	1450.41	1450.22	1452.41

	Nov. 30	Nov. 29	Nov. 26	Nov. 25	Nov. 24
FT-SE Eurotrack 100	1343.12	1344.70	1346.86	1343.06	1329.41
FT-SE Eurotrack 200	1420.82	1417.23	1412.67	1410.14	1386.51

Base value 1000 (26/10/90); Highday: 100 - 1366.90; 200 - 1453.03 Lowday: 100 - 1353.77 200 - 1438.46

US drug stocks affected by health care reforms

Paul Abrahams on the afflictions of the sector

US drug stocks have had a torrid year so far. Since the beginning of January, the Standard & Poor's drug index has underperformed the S & P composite by 18 per cent.

The reasons for this are not hard to find: the sector, which generates an unusually large proportion of sales outside the US, has been hit by health care reform in most of its international markets, as well as changes in its domestic customer base.

Growth of the US market, the world's most important, has decelerated rapidly over the last 12 months. IMS International, the market research company, estimates that it expanded at only 4 per cent during the first nine months of this year, compared with the same period last year. Until last year it was enjoying double-digit growth.

The deceleration has been caused not by the Clinton reforms, but by changes in the customer base. Hospitals, doctors and other purchasers of drugs are increasingly grouping together to purchase drugs. These managed groups, often more interested in the price of a drug than its safety and effectiveness, represent an increasingly large proportion of the drugs market. They are also negotiating ever greater discounts from pharmaceuticals companies.

The drugs groups' difficulties in the US have been exacerbated by a series of significant patent expiries. These affect sales of not only the off-patent drug but its patented competitors as well.

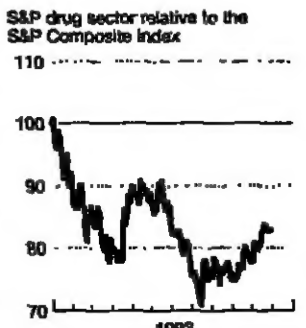
Many drugs groups are cutting prices to compete in this new environment. The Clinton reforms, encouraging the creation of health alliances, can only assist the market's deceleration. At the same time, pharmaceuticals earnings have also been hit by changes in the tax regime in Puerto Rico, where many of the US companies make their medicines.

US groups have found little help through exports. The Japanese market, the world's second largest, is growing at only 4 per cent, while Europe's top seven countries generated zero growth during the first nine months of this year compared with the same period last year.

But although all US groups are facing similar problems, their abilities to weather the health care storm vary enormously. Analysts have spent the last 12 months trying to explain to investors the difference between the haves and the have nots of the drugs industry. They have almost completely failed.

US pharmaceuticals

S&P drug sector relative to the S&P Composite index



Source: FT Graphite

The differences between the companies are immense. At one extreme there is Syntex, the Californian-based group. The US patents of its most important product, Naprosyn, expire this month and effects will devastate the company. Naprosyn's US sales were $760m last year, compared with group pharmaceuticals turnover of $1.8bn. Its shares have underperformed the drugs market by 12 per cent since the beginning of the year.

At the other extreme is Merck & Co, the world's biggest drugs group. Its shares have also underperformed the drugs sector by 12 per cent, yet its underlying volume growth rate is about 9 per cent.

Another star with a disappointing stock market performance is Pfizer. Its volume growth remains in double digits and its main problem is minimising its profits to prevent political embarrassment. Yet it has only outperformed the drugs sector by 3 per cent and has underperformed against the market.

Those that have done well against the sector this year are not the industry's traditional stars. Warner-Lambert, normally seen as a dull consumer products, chewing gum and confectionery company – with a few drugs tacked on – has outperformed the sector by 9 per cent so far this year.

Upjohn, which has been struggling with the patent expiries of three of the group's leading drugs over the past 12 months, has also done well: its shares are 10 per cent higher than the sector on the basis of takeover rumours. At one stage it was outperforming by 26 per cent.

The only company whose stock market performance has matched its commercial performance has been Schering-Plough. The analysts' favourite this year, with its young portfolio of products, its strong position in antihistamines, its programme of operating margin improvement, and its powerful pipeline of new drugs, the company has outperformed the sector by 18 per cent. Even so, the shares are only 5 per cent up since January.

The drugs industry is complicated. The market is fragmented, with Merck, the world's largest drugs group, controlling little more than 5 per cent of the market; there are about six important therapeutic areas which cover many different diseases; for each disease there may be four or five different classes of drugs that can be used; in each class there may be as many as 15 different drugs; and each of these probably has three different names.

When all drugs groups were generating 15 per cent earnings growth, such complexity did not matter. Now, in spite of the quality of some drugs companies, it is not surprising that many fund managers have been disinclined to increase their weighting. The sector is too difficult for its own good.

ASIA PACIFIC

Pledges on economy take Nikkei up 4.4%

Tokyo

Tuesday's rush of promises to support the economy by ministers and financial authorities prompted short-covering and bargain hunting, and the Nikkei average jumped 4.4 per cent, retrieving the 17,000 level for the first time in four trading days, *writes Emiko Terazono in Tokyo.*

The 225-issue index ended 718.77 ahead at 17,125.31 after a day's low of 16,439.94 and high of 17,168.22, while the Topix index gained 69.81, or 5.1 per cent, at 1,443.37. In London the ISE/Nikkei 50 index put on 1.71 at 1,169.12.

Investors actively sought shares after Mr Morihiro Hosokawa, the prime minister, told parliament that he would take whatever measures necessary to revive the economy.

Mr Yasuo Ueki at Nikko Securities said investors were also cheered by Tuesday's comments from leading ministers regarding the implementation of a land tax reform to boost the ailing property market. "Investors saw this as the government's pledge to finally deal with asset deflation," he added.

However, there is still concern over the parliamentary debate on political reform, which is currently being stalled due to talks over the supplementary budget. Mr Hosokawa has pledged that he would resign if he could not introduce the reforms this year.

Volume rose to 370m shares from 332m. Advances overwhelmed declines by 1,064 to 42, with 41 issues unchanged.

Banks, which have been especially hit during the recent falls, recovered ground. Industrial Bank of Japan rose Y170 to Y2,860 and Sumitomo Bank gained Y220 at Y2,000.

East Japan Railway advanced Y12,000 to Y427,000, while Nippon Telegraph and Telephone moved ahead Y45,000 to Y729,000.

High-technology stocks firmed. Hitachi climbed Y31 to Y799 and Fujitsu Y50 to Y772. Consumer electronics companies were also strong, with Sony up Y190 at Y4,860 and TDK adding Y330 at Y3,670.

Steel issues were in demand: Nippon Steel put on Y13 at Y314 and NKK Y9 at Y230. Construction shares, which have been battered by the recent spate of bribery scandals, rose: Nishimatsu Construction, the most active issue of the day, rallied Y70 to Y1,110.

In Osaka, the OSE average rose 797.93 to 18,977.00 in volume of 26.5m shares.

Roundup

Strong advances were recorded in some regional markets.

HONG KONG was buoyed by a late surge in index futures, in spite of lingering investor caution over Sino-British friction.

The Hang Seng index climbed 128.92, or 1.4 per cent, to 9,254.08 in turnover that improved to HK$5.06bn from Tuesday's HK$4.82bn. December index futures surged to a high of 9,356 before finishing a net 140 up at 9,340.

HK Telecom put on 20 cents at HK$14.90 in spite of the government's decision to allow three competitors to enter the market after the expiry of Telecom's local monopoly in 1995.

TAIWAN forged ahead by 2.6 per cent, led by the Formosa Plastics group, which soared after the group said on Tuesday that major construction work on its $9bn petrochemical complex would start early next year.

The weighted index rose 114.44 to 4,468.34, its highest close since May 18. Turnover jumped to T$58.84bn, the heaviest since April.

Shares in four major Formosa group firms soared, Formosa Plastics ending limit up at T$44.10, Nan Ya Plastics ahead T$2.90 at T$48.10, Formosa Chemical and Fibre limit up at T$34 and Formosa Taffeta limit up at T$30.40.

BANGKOK took its lead from higher Tokyo and Hong Kong markets, advancing 2.4 per cent on strong demand for finance, brokerage, banking and property shares. The SET index rose 31.39 to 1,341.34 in turnover of Bt13.15bn, against totals of less than Bt8bn on Monday and Tuesday.

SINGAPORE was helped higher by the rebound in major overseas markets and speculators returning to trade Malaysian shares dealt over the counter. The Straits Times Industrial index closed 9.87 up at 2,106.01 but was off the day's best of 2,113.37.

KUALA LUMPUR extended recent gains on strong speculative and institutional buying and the composite index rose 18.97 to an all-time peak of 1,015.42. News that Finance Minister Anwar Ibrahim had been appointed Malaysia's deputy prime minister and would also keep his finance portfolio helped market sentiment.

NEW ZEALAND finished firmly after a heavy day's trading and strong overseas interest, particularly in forestry stocks. The NZSE-40 index added 18.9 at 2,040.53.

BOMBAY closed higher in spite of a ban on the forward sale of 10 volatile shares. The BSE 30-share index moved forward 59.71 to 3,292.85. KARACHI saw fresh buying of fuel, power and textile issues, which pushed the KSE 100 index up 29.47 to 1,721.30.

AUSTRALIA was left easier by a weak mining sector and mixed performances from blue chip issues. The All Ordinaries index shed 4.0 to 2,005.4.

SEOUL's composite index finished 2.31 off at 808.75 in spite of support for blue chip manufacturers.

SOUTH AFRICA

The market moved ahead in active trading following a few days of uncertainty. The gold shares index strengthened 31 to 1,857, industrials rose 52 to 4,903 and the overall index added 45 at 4,209. De Beers gained R1.70 at R85.45.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY NOVEMBER 30 1993								MONDAY NOVEMBER 29 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (69)	150.11	-0.1	149.92	103.52	133.96	151.41	+0.1	3.40	150.20	149.65	103.73	133.42	151.25	162.83	117.39	114.87
Austria (17)	172.46	+1.4	172.24	118.94	153.91	153.52	+1.6	1.04	170.06	169.46	117.46	151.07	151.06	184.47	131.16	138.78
Belgium (42)	152.74	-0.4	152.54	105.33	136.30	136.73	+0.1	4.21	153.39	152.83	105.92	136.25	136.56	156.76	131.19	134.88
Canada (107)	130.94	+0.2	130.77	90.30	116.85	126.77	+0.4	2.64	130.73	130.26	90.28	116.12	126.24	135.54	111.41	112.65
Denmark (32)	232.26	+0.5	231.96	160.18	207.27	214.73	+0.9	1.08	231.15	230.31	159.63	205.32	212.76	241.06	185.11	189.56
Finland (23)	117.97	+0.7	117.82	81.36	105.28	144.49	+0.6	0.72	117.16	116.73	80.91	104.07	143.68	128.99	65.50	72.55
France (98)	162.15	-0.8	161.95	111.82	144.63	150.90	-0.4	3.08	163.53	162.93	112.92	145.24	151.47	173.05	142.72	148.50
Germany (60)	130.51	+0.3	130.35	90.02	116.47	116.47	+0.7	1.77	130.17	129.69	89.90	115.62	115.62	136.13	101.59	106.90
Hong Kong (55)	373.50	+1.2	373.02	257.58	333.33	370.48	+1.1	2.84	369.22	367.87	254.97	327.97	366.30	394.34	218.82	223.13
Ireland (14)	176.37	+1.1	176.14	121.63	157.39	175.87	+1.1	3.22	174.45	173.79	120.46	154.93	174.00	177.89	129.28	137.80
Italy (70)	60.62	-1.5	60.54	41.80	54.09	77.20	-0.8	2.17	61.54	61.32	42.50	54.66	77.85	78.93	53.78	56.02
Japan (469)	127.11	+2.1	126.95	87.66	113.45	87.66	+1.9	0.93	124.54	124.09	86.00	110.63	86.00	166.91	100.75	104.96
Malaysia (69)	480.96	+2.1	480.34	331.68	429.20	473.63	+2.1	1.47	471.02	469.31	325.27	418.37	464.31	487.72	251.66	271.97
Mexico (19)	2075.92	-0.6	2073.25	1431.64	1852.56	7046.30	-0.8	0.70	2089.34	2081.75	1442.87	1855.85	7100.89	2089.34	1410.30	1592.84
Netherland (26)	189.07	+0.6	188.83	130.39	168.73	166.03	+1.0	3.19	187.93	187.25	129.78	166.94	164.43	197.07	150.39	152.43
New Zealand (13)	61.27	-0.7	61.19	42.26	54.68	59.54	-1.0	3.96	61.72	61.49	42.62	54.82	60.12	66.38	40.56	42.68
Norway (23)	168.53	+1.8	168.31	116.23	150.40	170.59	+2.2	1.50	165.52	164.92	114.31	147.03	168.98	185.10	137.71	145.63
Singapore (39)	310.64	+0.3	310.24	214.23	277.22	228.97	+0.2	1.40	309.59	308.47	213.80	274.99	228.56	332.55	207.04	205.93
South Africa (60)	216.53	-0.4	216.25	149.33	193.23	210.84	-0.5	2.57	217.33	216.54	150.06	193.03	211.87	229.39	144.72	143.87
Spain (42)	128.88	-1.5	128.71	88.88	115.01	137.47	-1.0	4.34	130.88	130.41	90.39	116.26	138.92	145.24	115.23	115.48
Sweden (36)	177.79	+1.1	177.57	122.62	158.67	222.93	+1.4	1.56	175.84	175.20	121.43	156.19	219.83	208.92	149.70	167.18
Switzerland (50)	147.30	-0.5	147.11	101.59	131.46	137.07	+0.2	1.58	147.98	147.44	102.20	131.46	136.84	148.18	108.91	108.45
United Kingdom (217)	190.36	+0.7	190.11	131.27	169.86	190.11	+0.9	3.79	189.06	188.37	130.55	167.91	188.37	193.97	162.00	170.41
USA (518)	187.99	-0.1	187.75	129.65	167.77	187.99	-0.1	2.75	188.15	187.47	129.94	167.13	188.15	191.56	175.38	176.07
Europe (750)	157.11	+0.1	156.91	108.35	140.21	152.60	+0.5	2.98	156.90	156.33	108.35	139.37	151.82	162.97	133.92	135.61
Nordic (114)	174.79	+1.0	174.57	120.55	155.99	188.09	+1.2	1.32	173.15	172.52	119.57	153.80	185.80	194.54	142.13	150.75
Pacific Basin (714)	137.30	+1.9	137.12	94.69	122.53	98.24	+1.7	1.23	134.79	134.30	93.09	119.73	96.56	168.80	105.89	109.31
Euro-Pacific (1464)	145.40	+1.1	145.21	100.26	129.75	119.04	+1.2	2.01	143.84	143.32	99.33	127.76	117.84	162.86	117.26	119.95
North America (625)	184.44	-0.1	184.20	127.21	164.62	183.79	-0.1	2.75	184.58	183.91	127.48	163.96	183.91	187.68	171.51	172.14
Europe Ex. UK (533)	136.42	-0.2	136.24	94.10	121.77	130.73	+0.2	2.45	136.73	136.23	94.44	121.48	130.41	143.73	112.51	114.76
Pacific Ex. Japan (245)	234.81	+0.9	234.51	161.96	209.57	218.32	+0.8	2.71	232.87	232.02	160.84	206.86	216.49	246.12	152.70	152.08
World Ex. US (1650)	147.05	+1.0	146.86	101.42	131.23	121.98	+1.1	2.02	145.68	145.06	100.55	129.32	120.61	162.89	118.51	120.67
World Ex. UK (1951)	156.84	+0.6	156.64	108.17	139.96	137.77	+0.6	2.14	155.97	155.40	107.72	138.55	136.94	168.66	134.22	135.52
World Ex. So. Af. (2108)	159.47	+0.6	159.27	109.99	142.32	141.73	+0.6	2.31	158.55	157.97	109.50	140.84	140.81	170.46	137.29	138.62
World Ex. Japan (1699)	178.43	+0.1	178.20	123.06	159.26	175.30	+0.2	2.80	178.34	177.69	123.17	158.43	174.97	181.67	157.47	167.58
The World Index (2168)	159.77	+0.6	159.56	110.19	142.59	142.31	+0.6	2.31	158.86	158.28	109.71	141.11	141.47	170.68	137.32	138.54

Constituent changes with effect 2/12/93: Addition: Swiss Reinsurance (Reg.) (Switzerland). Deletions: Swiss Reinsurance (P.C.) (Switzerland) and Whitbread 'B' (U.K.). Name change: Nikko Kyodo to Japan Energy Corp. (Japan) Latest prices were unavailable for this edition.